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Low pay and pensions: planning for old age in a real world of insecurity, financial constraint and competing demands

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Marcus Whiting

School of Health and Social Sciences

Middlesex University

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ABSTRACT

This thesis is a study of current pension policy and its likelihood of providing a decent retirement income that guarantees a quality of life for the low paid, namely a retirement above subsistence level and one that offers them dignity and personal autonomy. The low paid often experience financial difficulties during their working lives and owing to competing financial demands not only do they struggle to make ends meet but find it difficult to put aside savings for their futures. This research was a social investigation and examined current government thinking and its approach to redress these problems. It used a multi-methodological approach underpinned by four components: a literature review; a comprehensive analysis of research reports that focused on individuals' saving habits; semi structured interviews with the low paid to explain their real life experiences; and an analysis of contemporary proposals.

The literature review highlighted that since the 1950s there has been a shift from socialisation of risk, where risk is shared by the state employer and employee, to an individualisation of risk in pension policy and 'New' Labour has continued along this route. Moreover, low pay remains a prominent issue today just as much as it did at the beginning of the 20th Century. It is this combination of continued low paid and increased risk on the employee that has exacerbated the plight for many in low pay employment. The current solution supported by government relies on using means testing to protect the poorest whilst expecting others to be 'responsible' citizens and provide for their retirement under the rhetoric of 'rights' and 'responsibility'. Yet as this research established many in the latter category are considered low paid by the Low Pay Unit. It is this problem of definition that has led policy makers to fail to understand that the low paid are in fact unable to make money purchase pension schemes viable. This has now been recognised by other organisations, political parties and academics. Now even the pro-market right have acknowledged the failure of the private sector to bridge the gap vacated by the state under twenty years of neo-liberal policy and argue that means testing, once favoured by the Conservative Party, acts as a disincentive to save towards a second-tier private pension.

Key findings in this thesis include: first that the low paid do in fact have a positive attitude towards saving but it is their lack of ability and real opportunity that prevents them from saving towards a decent second-tier pension. Thus there is a contradiction in policy that seeks to improve attitude and awareness of the low paid to improve their situation. Second, that the government presides over a low paid economy and this is a political choice that favours pro-business labour market policies. Third, current government attitude continues to ignore the warnings from both pro-state left and pro-market right sources that a continuation of a pension policy relying on means testing in fact acts as a poverty trap. And finally, the plight of the low paid remains bleak and will worsen in the future if neo-liberal policy continues without increased state intervention.

CONTENTS

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LIST OF ABBREVIATIONS

ABI	Association of British Insurers
ASHE	Annual Survey of Hours and Earnings
ASI	Adam Smith Institute
AVCs	Additional Voluntary Contributions
BME	Black and Minority Ethnic
BHPS	British Household Panel Survey
BSP	Basic State Pension
CBI	Confederation of British Industry
DB	Defined Benefit
DC	Defined Contribution
DHSS	Department of Health and Social Security
DSS	Department of Social Security
DWP	Department of Work and Pensions
EOC	Equal Opportunities Commission
EU	European Union
FES	Family Expenditure Survey
FSA	Financial Services Authority
FWLS	Family and Working Lives Survey
GAD	Government Actuary Department
GDP	Gross Domestic Product
GPS	Graduated Pension Scheme
HRP	Home Responsibility Protection
IPPR	Institute of Public Policy Research
IRR	Income Replacement Rate
JRF	Joseph Rowntree Foundation
LAUTRO	Life Assurance and Unit Trust Regulatory Organisation
LEL	Lower Earnings Level
LETL	Lower Earnings Threshold Limit
LFS	Labour Force Survey
LPC	Low Pay Commission
LPU	Low Pay Unit
MIG	Minimum Income Guarantee
MPS	Money Purchase Schemes
NAO	National Audit Office
NAPF	National Association of Pension Funds
NBPI	National Board for Prices and Incomes
NEF	New Economics Foundation
NES	National Earnings Survey
NI	National Insurance
NICs	National Insurance Contributions
NIDL	New International Division of Labour
NMW	National Minimum Wage
NPC	National Pensioners Convention
OECD	Organisation for Economic Co-operation and Development
OFT	Office of Fair Trading
ONS	Office of National Statistics
OPCS	Office of Population and Census Survey
OPRA	Occupational Pensions Regulatory Authority
OPS -	Occupational Pension Scheme
PAYE	Pay As You Earn
PAYGO	PAY as you GO
PIA	Personal Investment Authority
PP	Personal Pension
PPI	Pensions Policy Institute
RPI	Retail Prices Index
SERPS	State Earnings Related Pension Scheme
SHP	Stakeholder Pension
SIAS	Social Insurance and Allied Services
S2P	State Second Pension
TUC	Trades Union Congress
UEL	Upper Earnings Limit

PREFACE

This thesis is concerned with the potential of UK pension proposal and policies to provide future security in old age for the low paid. Pensions as a subject area has become very topical in recent years, particularly due to the 'misselling' of the personal pension (PP) in the late 1980s and early 1990s, which left many people with worthless pensions, and the Maxwell pensions scandal in 1991 where Maxwell misused £400m from the Mirror Group pension schemes (see the Guardian, 2001, 31st March), leaving thousands without an occupational pension. The current concern with the private sector, however, is less to do with scandals but more to do with the capability of the private sector *per se* to provide a decent retirement income for many of their employees. This is particularly important as there has been an increase in the role of the private sector in pension provision for the less well off in society.

In a world in which 'globalisation' is said to be taking over in an uncontrollable manner and where the population faces 'new risks', the individual is seen as ever more responsible for securing their own future. This raises the question whether or not low paid workers should be considered able to provide for themselves in retirement and if so how? A study by Burchardt, Hills and Propper (1999) indicated the importance that the level of income has in influencing how far an individual can take care of their own welfare. Moreover, many low paid workers are in secondary sector employment, which as Peck (1996) notes includes jobs in the retail and service industry that are often precarious in nature. Rowlingson (2000) suggests that job insecurity, the decline in collective bargaining powers and increased inequalities in wealth distribution have made individual planning much more difficult. Kempson (1996) shows that people who live on low income are not an 'underclass':

uncoordinated policy-making has meant that poor people have not shared in the general rise in living standards. Besides the level of income, the low paid face a number of social inequalities accumulated over a lifetime including poorer health, less education and training opportunities and are more prone to debt. Policy discussions, however, tend to operate in single categories, for example, with discussions of pension reform being separated from these of the family or working conditions, education or health reform.

Current pension policy

Nevertheless government policy continues to embrace individualised pension provision as seen in the recent introduction of the Stakeholder Pension (SHP). The aim is that the SHP will provide a cheaper option for those regarded as middle income earners who are not already contributing towards an occupational pension scheme (OPS). Significantly, many of those considered as middle income earners by the government are regarded as low paid by the Low Pay Unit (LPU) and the Council of Europe[1]. In order to avoid the 'misselling' associated with the PP, the SHP operates within a new regulatory framework with minimum standards. Companies that offer a SHP have to apply to the Occupational Pensions Regulatory Authority (OPRA) for registration. The Financial Services Authority (FSA) is responsible for regulating the sale and promotion of the SHP (see Department of Social Security (DSS), 1998). Nevertheless the government's SHP is a defined contribution (DC) pension as opposed to a defined benefit (DB) pension and as such redistributes the investment risk squarely onto the individual, away from the employer and the state.

[1] Low pay in April 2002, at the time the empirical research was carried out, was defined as below £14,560 p.a. by the LPU and below £16,431 p.a. by the Council of Europe.

It is claimed that the SHP is underpinned by policy that aims to protect the 'poorest' in our society. As Tony Blair stated in the introduction to the Green Paper: 'We are building a new contract for pensions between the State, private sector, and the individual. We believe that those who can save for their retirement have the responsibility to do so, and that the State must provide effective security for those who cannot' (*op. cit.*, p.iii). Hence, the intention of the government is to find a balance between helping the neediest whilst clearly stating the responsibility of others to save. These policies appear little different from those of the previous Conservative administration and there has been no reversal of policies that reduced state pension benefits for the low paid. This is contrary to the Labour Party position ten years prior to election, which proposed to 'fully restore the State Earnings Related Pension Scheme (SERPS) as part of the process of achieving [the] objective of a pensions level of one-third average earnings for single people and half average earnings for married couples' (Labour Party, 1987). Instead, means-testing is now seen as the solution for the low paid. The New Labour government stated in 1998 '[m]any pensioners on low incomes need support from the State. We are targeting help on those who need it most through a new minimum income guarantee [MIG][2] for pensioners' (DSS, 1998, ch.5). Thus the neo-liberal policy of the Conservative government was continued, promoting individual responsibility and based on the concept of a 'risk society' as introduced by Beck (1992). Such policies as Levitas argues (2001, p.449) see the individual as morally accountable whilst ignoring structural problems. This approach has in the past failed the low paid. Critiques of New Labour government pension policy suggest this failure will continue. Research evidence suggests that in the future (circa 2030 onwards) many retirees will struggle as retirement income is predicted to decrease markedly relative to earnings. As current pension policy stands, many will have to rely on means-tested benefits as people's

[2] The MIG was replaced by the Pension Credit on the 6 October 2003.

savings will fail to generate income above this level (see Rake *et al*, 2000, p.313). Moreover, those who do manage to save enough could find themselves caught-up in means-testing as often pensions or annuities on payment are only upgraded annually to the retail prices index (RPI) as opposed to annual earnings as currently used for upgrading the means-tested top-up: the Pension Credit (formerly MIG).

The research approach

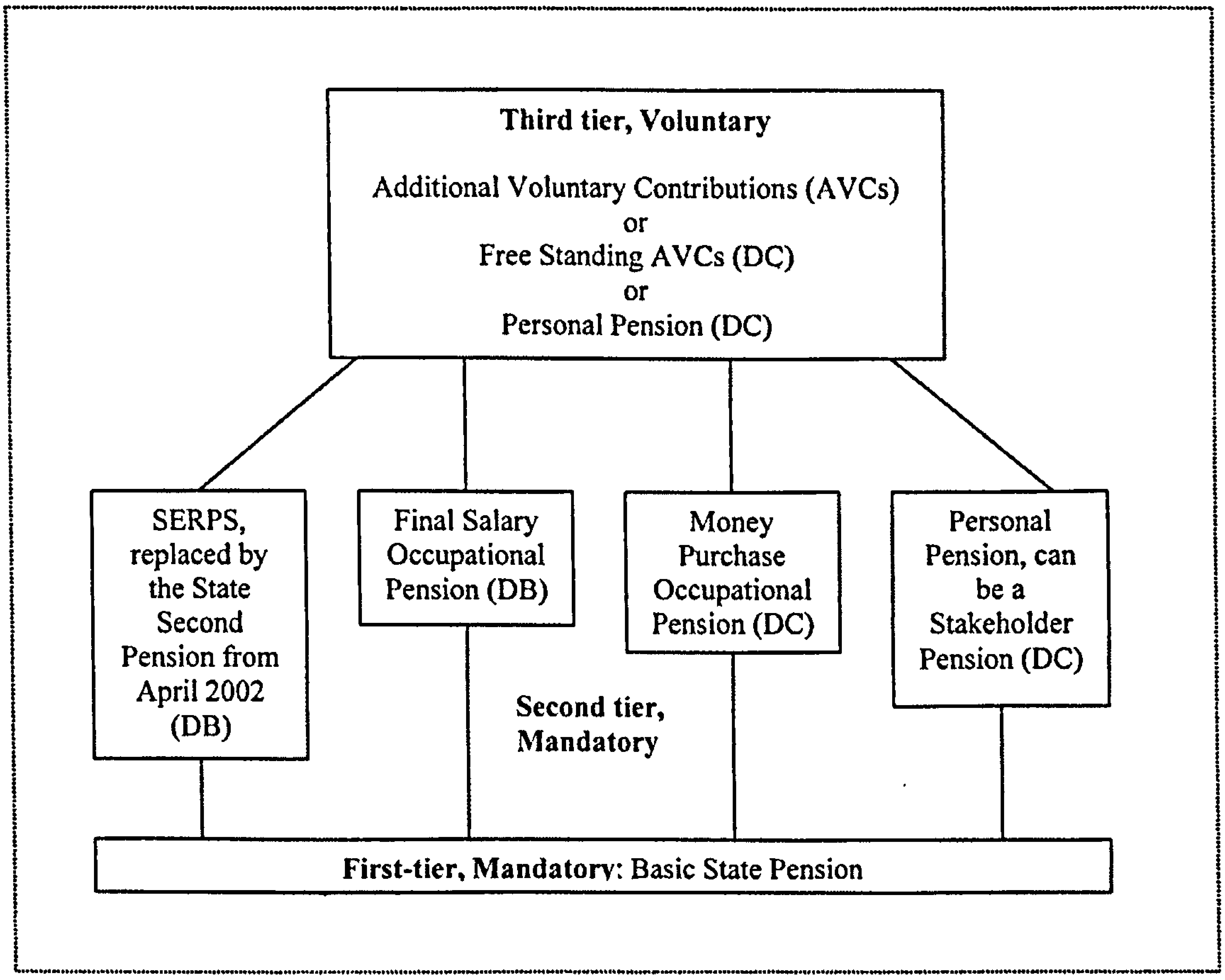
This research discusses the development of the ideology that underpins current pension policy, which favours a private sector solution for all but the very poorest in society. Government policy is to promote the SHP for low paid workers despite much research arguing that the private sector will fail the low paid. It is the failure of current policies to alleviate poverty in retirement that this research will address. The individualised approach towards risk management differs distinctly from the socialisation of risk experienced under the post-war settlement which led to the 'welfare state'. Current government ideology rests on a new concept of a 'risk society'. This thesis will examine to what extent this idea legitimises greater individual responsibility? Moreover, as the state devolves its responsibilities onto individuals, their families and household, there is a need to examine how far this is understood by low paid workers and what contingency plans, if any, they have in place. By interviewing low paid people, this research examines the opportunities that the low paid have today to plan ahead for sickness and old age. It builds on the study by Rowlingson (2000) who researched the extent to which it is possible in the real world to behave according to strict rational choice precepts.

As pensions are a complex area the debates and discussions will be easier to follow if the current pension regime referred to in this thesis is elucidated.

Outline of the UK pensions system

Figure 1 sets out the structure of the British pension regime.

Figure 1: Outline structure of the British pension regime (2002)



Source: Ginn, 2003, p.18, Figure 1.6.

Only the first two tiers will be explained as these are most relevant to the low paid. The first-tier consists of the Basic State Pension (BSP) and is paid for via National Insurance

Contributions (NICs) by workers who earn above the lower earnings level (LEL)[3]; employers also contribute but the state no longer pays its contribution towards the National Insurance Fund. Those earning below the LEL are not expected to pay but would not gain any National Insurance (NI) credits towards their BSP unless they are in receipt of the Home Responsibility Protection (HRP). The BSP is paid out as a flat-rate pension but depends on the NI contribution record; for example, less than 10 years would mean no entitlement to the BSP on individual credits alone (Pension Service, 2003, p.28).

In addition to the BSP are four distinct options but one choice has to be made: SERPS or the State Second Pension (S2P); the DB OPS; DC OPS; and the PP or the SHP. Everybody excluding self-employed workers is automatically contributing towards the SERPS/S2P unless they have contracted out. As with the BSP it is paid for via NICs but on earnings between the LEL and the upper earnings limit (UEL) (*op. cit.*, p.35). Its benefits are paid out according to earnings but it is redistributive towards the lower paid. The future aim is to remove the earnings link in payment and make the S2P a flat rate pension. 'In time, [the] S2P will become a flat rate scheme, concentrating state provision in retirement on people on lower earnings, while making funded pensions the way ahead for people on moderate and higher earnings' (DSS, 1999, ch.4, para.12).

When a person has contracted out of the state second-tier pension they may have chosen the PP or the SHP. These are individual money purchase schemes (MPS). A key difference is that no NICs are paid towards these second-tier pension schemes. However a NICs rebate is paid into these schemes and employers can add more if they choose. These

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[3] The BSP is based on qualification years, this is currently 52 weeks at the LEL, however, between 6th April 1975 and 5th April 1978 this was 50 weeks at the LEL (Pension Service, 2003, p.21).

schemes are dependent on the success of the contributions made by the individual minus the financial cost involved in the management of their pension fund. Employers are not compelled to contribute, therefore, lowering the final contributions paid into the fund. Significantly, tax relief is used to encourage people into these schemes.

Finally, a person may have contracted out of the state's second tier pension provision into an OPS. Up until recently they were predominantly DB pension schemes and until 1988 a condition of employment. They were paid for via contributions made by the employee and the employer, the latter paying the greater part. They were paid out on a percentage either linked to average earnings or the final salary (normally an average of the last three years worked). However, these are being replaced by the DC OPS and they differ in two fundamental ways. First, payment is based on pension fund success as it is a MPS and is not earnings related. Second, employer contributions are markedly reduced (see Blackburn 2004).

If any of the four above options fails to generate a pension above the current Pension Credit (formerly the MIG) level then, depending on individual circumstances, a means-tested benefit can be claimed.

Structure of thesis

The potential of current UK pension proposals and policies to provide future security in old age for the low paid is explored in the following chapters.

Chapter 1 provides an overview of continuities and changes in the ideology behind UK government pension policy since the 1950s. A key feature of the post war welfare state was the attempt to socialise approaches to risk. However, in the last two decades both Conservative and Labour governments have sought to promote individualised approaches to risk and risk management. This chapter discusses the form in which this shift has occurred. Firstly, it discusses the Beveridge Report in the area of pensions beginning with the deficiencies of that report and its subsequent implementation. Secondly, it explores the development by the Labour Party of an alternative approach to socialising risk in pensions policy. While aspects of the Beveridge approach were accepted by Conservative governments, the key debate over pension provision between the mid 1950s and 1980s was on the respective roles of the state and the occupational sector. Thirdly, the chapter focuses on changes in policy and values in the 1980s put forward by the Conservative Government who questioned both the role of the state and the occupational sector in securing income in retirement. Their preference was for individualised provision. The final section analyses the change in Labour's pension policy, initially opposing individualised provision but since achieving office in 1997 embracing individualised forms of risk management.

Chapter 2 identifies the low paid and analyses their position in the current labour market and the consequences associated with low pay. It examines the issues and problems associated with low pay with its links to poverty and poverty in retirement. As a study by Abel-Smith and Townsend in the early 1960s showed, there is a persistence of poverty linked with low pay. They identified that one-fifth of families in poverty derived their main source of income from employment, and many families in poverty had at least one income earner (1965). This chapter examines the issues and the continuing concerns with low pay. Firstly, it identifies a definition of low pay, examining the Labour Force Survey (LFS) and

National Earnings Survey (NES). Secondly, a profile of the low paid is established, asking who are the low paid by analysing data on the low paid and how this has changed over time. Thirdly, it identifies the politics underpinning low pay, analysing the interventions and effectiveness of policy towards low pay and exploring a brief history of public policy including the Wage Councils, the National Minimum Wage and the Equal Pay Act. Fourthly, it examines the problems and issues facing the low paid, including the insecurity of low pay as a result of the 'no pay, low pay' cycle, contract work, labour market flexibility, and lack of fringe benefits such as occupational pensions. Finally, the chapter identifies who gets into debt, and how far this affects them, including issues such as how new is security / insecurity and how is it different?

Chapter 3 explains how the research design and methodology were formulated and selected and examines my empirical research in detail. The first section addresses the research design and methodology. This explains the philosophical underpinning of the thesis, which shaped the key research question and the research aims. Importantly, it explains the purpose of the research, which is followed by an explanation and a justification of the methodology used, namely, a social investigation using the multiple methods approach, underpinned by four components: a literature review, a comprehensive review of research reports, semi-structured interviews with low paid people and an analysis of contemporary proposals. Issues of generalisation, validity and reliability of methodology are discussed, supporting the wider application of qualitative research. The second section addresses my empirical research, namely the use of semi-structured interviews. It identifies how I defined low pay and selected the sample, how I addressed the questionnaire design and the interview strategy I used for my research, including the ethical consideration needed when dealing with those regarded as low paid. It also addresses issues concerning contacting and accessing respondents and how the data were analysed. Finally in this chapter I discuss my personal experience and reflect on my research experience.

Chapter 4 is a comprehensive review of recent research reports and discusses secondary research on the pension provision of individuals and their approach to saving. The chapter is divided into four parts: The first part will examine the methodologies used in the reports received. The second part will examine research on individuals' awareness (knowledge) and attitudes (opinions) towards current pension schemes. The third part will examine the research on approach (strategy) and ability (opportunity) of individuals to saving for retirement. In both cases there will be a discussion of the research aims, research questions/foci and findings. The final section will be an examination of the key themes which have been identified and their relevance for the low paid. This section will conclude with a statement of the research focus for the thesis. The research aims of the studies endeavoured either to assess individual awareness (knowledge) and attitudes (opinions) towards current pension schemes, or to examine the approach (strategy) and ability (opportunity) of individuals to save for retirement. The aims of the studies, therefore, can broadly be divided into two groups. In the first group the following studies can be placed: The Goode Committee, *The Goode Report* (1993); Hawkes and Garman, *Perceptions of non-state pensions* (1995); Hedges, *Pensions and retirement planning* (1998); Thomas *et al, Increasing compulsory pensions* (1999); Mayhew, *Pensions 2000: Public attitudes to pensions and planning for retirement* (2001) and Age Concern, *Attitude towards income in retirement* (2002). In the second group the following studies are located: Field and Prior, *Women and pensions* (1996); Walker *et al, Building up pension rights* (1999); Knight and McKay, *Lifetime experience of self-employment: Financial provision for retirement* (2000); Rowlingson, *Fate hope and insecurity* (2000); Nesbitt and Neary, *Ethnic minorities and their pension decisions* (2001) and Taylor-Gooby, *Risk contingency and* *the 'third way'* (2001). Importantly, some studies may cover areas found in both groups, but the key research aim of each study will be the focus here.

Chapters 5 and 6 report on the independent empirical research: *Chapter 5* assesses the attitudes of the low paid towards saving and to what extent they are aware of the reallocation of risks. This chapter is divided into two parts. The first examines the attitudes of the low paid towards saving and retirement and explores their attitudes towards current pension policy and more recent proposals that have been introduced. The second part examines the awareness of the low paid of current schemes and of the more recent proposals which have seen a reallocation of risk due to the changing role of the state, namely, a shift in responsibilities to other bodies, including the individual and their families. *Chapter 6* addresses the approaches respondents use towards saving generally and saving for retirement in particular and how this relates to the opportunities on offer. The point is that creating an option does not take into consideration people's ability to save for retirement. Hence, this chapter examines current approaches which respondents are pursuing towards saving and saving for retirement and is set out in two parts. First, it looks at the approaches that the respondents are taking. Second, it examines the ability that respondents have to save and save for retirement.

Chapter 7 assesses contemporary pension proposals covering a wide spectrum of views from political parties; pressure groups; organisations that represent the business community; think tanks and a number of academics. These sources are: Adam Smith Institute (ASI) (2004); Association of British Insurers (ABI) (2003); Robin Blackburn (2004); Neil Churchill and Michelle Mitchell (2005); Confederation of British Industry (CBI) (2004); Conservative Party (2003); Davies *et al* (2003); Frank Field (2002a); Help the Aged

(2005); Institute of Public Policy Research (IPPR) (2004); Labour Party (2002); Liberal Democrats (2004); Michael Meacher (2005); National Association of Pension Funds (NAPF) (2004); National Pensioners Convention (NPC) (2002); New Economics Foundation (NEF) (2003); and the Trades Union Congress (TUC) (2005). As it is impossible to discuss all the pension proposals that have emanated from these sources over the last decade those discussed have been selected on the basis that they represent a range of policy standpoints across the political spectrum. These proposals will be compared and contrasted in respect of their objectives and their likelihood to benefit the low paid (see table 7.1 for further detail). This chapter is in two sections: the first identifies key issues in current pension proposals and considers in particular how state involvement is perceived. It also examines the extent to which there remains a pro-state left or a pro-market right approach towards pension provision. The final section of this chapter assesses the extent to which these proposals address the issues and concerns that emerged from the empirical research, especially their potential to redress the inequalities experienced by the low paid.

Chapter 8 draws together the themes researched in this thesis which set out to examine the potential of current UK pension policies and proposals to provide future security in old age for the low paid, attempting to answer the question: Can it do so? The thesis identifies that there has been a change from socialisation to individualisation of risk and questions if those on low pay, who besides saving for retirement have competing demands, can save sufficient income within a pensions system that has witnessed an increase in private sector provision that cannot fill this gap vacated by the state. Significantly, little research in the past has focused on this risk reallocation and its significance for those on low pay. Moreover, it is generally assumed that the shift in risk is inevitable and that for many on low pay sacrifices will need to be made if they are to expect a decent standard of living in retirement. However, neo-liberal policy ignores the structural inequalities that exist in society and assumes that merely changing attitudes and awareness will suffice. The conclusion examines this premise and its likely success to alleviate relative poverty in retirement for those on low pay. Interviews with those on low pay about their life experiences examined the conflict between their attitude and awareness of pension policy and their approaches and ability to save for retirement, revealing a positive attitude towards saving and saving for retirement but an inability to save for most respondents. Yet the current trend is for the Labour Government to persist with neo-liberal policy and preside over an economy supported by low wages. The conclusion examines these conflicts, questioning the extent to which the Government can make real choices to help those disadvantaged in society, particularly as it has been argued by 'New' Labour that it has limited ability to regulate the labour market in a globalised economy. Can governments make choices? Is a low paid economy inevitable owing to globalisation? Or are there alternative ways forward, for example, a more egalitarian approach that is underpinned by a successful economy? These ideas are discussed in the context of the findings from the thesis.

CHAPTER 1: AN EXAMINATION OF THE CHANGES IN RISK THAT UNDERPIN THE UNITED KINGDOM'S PENSION POLICY: POST WAR TO PRESENT

Introduction

A key feature of the post war welfare state was the attempt to socialise approaches to risk. However it is in the last two decades that both Conservative and Labour governments have sought to promote individualised approaches to risk and risk management. This chapter will discuss the form in which this shift has occurred. The chapter is divided into four sections.

Section one offers a brief discussion of the Beveridge Report in the area of pensions. Commencing with the deficiencies of that report and its subsequent implementation the second section explores the development by the Labour Party of an alternative approach to socialising risk in pensions policy: while aspects of the Beveridge approach were accepted by Conservative governments, the key debate over pension provision between the mid 1950s and 1980s was on the respective roles of state as against the occupational sector. The 1980s, however, saw a major change by the Conservative Government who questioned both the role of the state and the occupational sector in securing income in retirement. Their preference was for individualised provision. These changes both in policy and values will be the focus of section three. The final section will analyse the change in Labour's pension policy; initially opposing individualised provision but certainly since achieving office in 1997, under the influence of Third Way and risk society concepts, embracing individualised forms of risk management.

The Beveridge Report: 'A pooling of risk' – the introduction of the socialisation of risk

For Beveridge, 'the abolition of want' in old age was a key objective. His statement of principle was uncontentious, namely, 'any Plan of Social Security worthy of its name must ensure that every citizen, fulfilling during his working life the obligation of service according to his powers, can claim as of right when he is past work an income adequate to maintain him' (Beveridge, 1942, para.239). The pension should be for subsistence when the pensioner had no other resources. Social insurance was Beveridge's chosen instrument for securing the income in retirement. He argued 'that benefit in return for contributions, rather than free allowances from the state is what the people of Britain desire' (*op. cit.*, para.21).

Beveridge's concept of social insurance was distinct from models of private and voluntary insurance, in that it was unfunded and premiums were not adjusted to difference in individual risk (*op. cit.*, para.24). In Appendix F of SIAS, he demonstrated that benefits and contributions in other countries were usually earnings related. However, Beveridge proposed the continuation of a flat-rate system in the UK on three grounds. Firstly, that the 'flat-rate of benefit treating all alike is in accord with British sentiment' (*op. cit.*, Appendix F, para.16(1)). Secondly, if there is a concern with eliminating poverty: [earnings related benefits] do not guarantee subsistence, and are liable in the case of lower paid workers to be below subsistence level' (*op. cit.*, (2)). Thirdly, while accepting that the state had a key role in securing income in retirement it was crucial that this should be limited (*op. cit.*, (3)). Here although future cost of pensions was a concern, the key reason given for the desirability of the flat-rate subsistence benefits was that they left 'untouched the freedom and the responsibility of the individual citizen in making supplementary provision for himself above that level' (*ibid.*). Of course, means tested benefits would also penalise thrift (*op. cit.*, para.21), thus Beveridge's hostility to them.

Therefore to summarise, Beveridge proposed subsistence level benefits in retirement for all, 'a pooling of risk' (*op. cit.*, para.25), financed via flat-rate insurance with no recourse to means tested benefits and 'voluntary insurance or saving to meet abnormal needs or to maintain standards of comfort above subsistence level' (*op. cit.*, para.239). Significantly, Beveridge's proposal introduced the concept of socialisation of risk in which risk in pension provision was shared by the state, employer and the employee: the state aiming to guarantee a subsistence pension underpinned by National Insurance Contributions (NICs). However, whether Beveridge's proposals would lead to income adequate in retirement would depend not only on the Beveridge proposals *per se* but their implementation by the post war Labour Government.

The 1950s through to the mid 1970s: 'Building on consensus' - a shift from socialisation of risk to collectivisation of risk

Beveridge's commitment to a universal pension at subsistence level financed by flat-rate contributions was fundamentally flawed. This is because financing pensions (or indeed any benefits) via flat-rate contributions acts as a constraint, in that the level of contribution must be set at a level affordable by the lowest paid: to increase such contributions to pay for higher pensions penalises the low paid. As Titmuss[4] was to argue 'in itself [the flat-rate contribution] is a poll tax, which hurts the poorest most, and it also directly restricts the size of the old age pension' (Labour Party, 1957, p.9). However, the flat-rate principle was accepted by both the coalition and subsequent Labour Governments and embodied in the 1946 National Insurance Act.

Certainly the potential that such a principle had for restraining state spending on social security, particularly given the concerns about the costs of an elderly population had considerable appeal to the Treasury (Tomlinson, 1998, pp.71-72: on the 'demographic crisis' see Titmuss, 1963, pp.56-74). Essentially, Treasury 'pessimism rested not only on relatively esoteric forecasts of the future but on what was widely regarded in the 1940s as brute fact: ... It was commonplace for discussions in this decade to argue that an ageing population would present huge problems in financing pensions' (Tomlinson, 1998, p.71). With the rhetoric of the demographic 'time bomb' and pessimism on future economic growth, the Treasury managed to reduce its contribution to the National Insurance Fund from 30% of National Insurance spending down to 17% by 1951/2 (Political and Economic Planning, 1952, p.10). As Tomlinson stated, 'with a ceiling on both employees and Exchequer contribution, the only way to square the circle was to reduce benefit entitlements' (1998, p.68). This resulted in a major divergence from the Beveridge model in benefit levels. In addition, the level of subsistence insurance benefits fell short of those recommended by Beveridge because they failed to take account of inflation (Kincaid, 1975, pp.58-60). As insurance benefits were subject to revision only at 5 year intervals (Harris, 1979, p.199), their real value fell. However, means tested benefits were regularly increased

[4] Professor Titmuss was a member of a technical sub-committee, which also included the then Dr Abel Smith and Mr Peter Townsend, who were brought together by the Labour Government to outline the principles of National Superannuation (see Labour Party, 1957, p.2).

in line with inflation: thus the gap meant an increasing number dependent on receiving National Assistance. There was an increase of just over half a million additional claimants receiving National Assistance (excluding non-contributory old age pensions) between July 1948 and December 1950 (Political and Economic Planning, 1952, p.33).

Clearly the state retirement pension was not providing an adequate income for elderly people. Inflation was only part of the answer: rather the major reason lay within the structure of National Insurance. Continued dependence on the flat-rate principle meant that an adequate pension income in retirement would be impossible for the low paid. At the same time, the growth of occupational pensions covering 8 million employees, 35% of the labour force by 1958 (Government Actuary Department (GAD), 1991, p.4), ensured a reasonable income for that section of the workforce. So the Labour Party believed that in order to reduce risk in retirement for those not covered by occupational provision it would need to break with Beveridge by installing an earnings related scheme.

National Superannuation (1957) was designed by Richard Titmuss, Brian Abel-Smith and Peter Townsend. National Superannuation aimed to provide every worker with an earnings related state pension. '[The National Superannuation pension] will be a new kind of National Insurance under which every man or woman who goes out to work will be able to make provision for old age. And the [pension] that an employee receives will depend on his earnings' (Labour Party, 1957, pp.20-21). The tripartite system of contribution would remain. '[A] worker who joins the National Superannuation Scheme would contribute a fixed percentage of his earnings, the employer a somewhat larger percentage and there would be an Exchequer grant as well' (*op. cit.*, p.21). The scheme would be redistributive to lower paid workers who would receive higher returns on their contribution than was actuarially justified: the reverse was the case for higher earners (for details see *op. cit.*, pp.57 and 64).

The idea of a departure from the concept 'fair share for all' was a novel one for the Labour Party, and still more for the TUC (Ellis, 1989, p.6). The TUC had to be won over if the National Superannuation Scheme was to be approved. This was because they were concerned with protecting the occupational pensions of their members. A state superannuation scheme that provided an earnings related contribution was considered a threat to such schemes. Titmuss found this stance a contradiction to his aim to alleviate poverty for the aged. He shared the views of his colleagues Abel-Smith and Townsend, that 'proportional contributions are preferable to flat-rate contributions; and if the national retirement pension is to have any real purpose, the role of National Assistance must be residual' (1955, p.27). Therefore, it was clear that for a National Superannuation Plan to be passed the TUC would have to agree to it in principle.

In 1957 Alfred Roberts became head of the TUC Social Insurance Committee, and emphasised the need for the superannuation approach to alleviate in the future the poverty that was currently being experienced by many in retirement. 'After spending years in frustrated attempts to gain higher benefits without inflicting crippling contributions on lower paid workers, Roberts quickly became convinced of the advantages of the new approach in reducing reliance on Treasury goodwill for each meagre pension increase' (Heclo, 1974, p.263). In March 1957, 'the departure from the traditional flat-rate benefits was finally accepted in principle by both the Labour Party and the Trades Union Congress' (Gilling-Smith, 1967, p.24). The key point was that the approach embodied in the National

Superannuation accepted that the inequalities, which existed under capitalism, required state intervention to ensure that the risk of poverty in old age could be alleviated.

While the Conservatives acknowledged the failure of the flat-rate scheme, their policy was effectively designed to both utilise and encourage the growth of occupational pensions as the centrepiece of earnings-related provision. Their response to the National Superannuation proposal was *Provision for Old Age* (1958), usually referred to as the Boyd-Carpenter Scheme. The key objectives of this were to make provision for employed persons who cannot be covered by an appropriate occupational scheme to obtain some pension benefit related to their earnings and to preserve and encourage the best development of occupational schemes (Ministry of Pensions and National Insurance, 1958, para.45). Therefore, the scheme introduced in the 1959 National Insurance Act – the Graduated Pension Scheme (GPS) – aimed at minimising the role of the state in pension provision. Benefit levels were modest: thus a contribution of one shilling (5p) a week from both employer and employee for six years would add an additional shilling a week to the final retirement pension: there was no Treasury subsidy and no provision for inflation-proofing the pension in payment (Ministry of Pensions and National Insurance, 1959, para.113).

A subsequent Conservative proposal the 1971 *Strategy for pensions: The future development of state and occupational provision* (the Joseph Plan) also supported a modest state scheme, for those not in an occupational scheme. Contributions 'no higher than the generality of [which] employers and their employees could afford. The scheme must, therefore, be of modest dimensions. It is in no way intended as a rival to occupational schemes or as a substitute for their expansion' (Department of Health and Social Security, 1971, para.27).

The 1959 Act provided an important stimulus to the growth in membership of OPS. With an insufficient state alternative and the enhanced tax concessions, an increase in OPS membership from 9.3 to 12.2 million occurred between 1960 and 1967 (see Brown and Small, 1985, p.138), resulting in a rise from 40.8% to 52.5% of the total workforce covered. This ensured that any future Labour Government's proposals would need to be designed to take account of these established pensions institutions (Hannah, 1986, p.59). The 1969 White Paper *National Superannuation and Social Insurance* therefore proposed an earnings related Social Security that stated, '[o]ccupational pension schemes have an important part to play in partnership with the State scheme. … The best foundation for the success of occupational schemes is the existence of a substantial basic compulsory State scheme; and strong arguments can be advanced that, so far from handicapping occupation schemes, the new State scheme will assist their long term development' (DHSS, 1969, para.46). Therefore, the existence of private sector pensions had become integrated into the policy of the Labour Government.

As Labour lost the 1970 election, these proposals fell and it was not until 1974 that a further Labour pensions policy emerged – *Better Pensions* (the Castle Plan). Again there is a recognition that the 'new scheme will operate in partnership with well-founded occupational schemes' (DHSS, 1974, p.iii). The key proposal was the introduction of a State Earnings Related Pension (SERPS) for those outside occupation coverage. SERPS would provide a pension equivalent to 25% of average earnings calculated over the best 20 years of employment. The pension would, when in payment, be raised in line with price increases. The scheme was designed 'to help particularly the lower paid' (*ibid.*) and 'end the massive dependence on means tested supplementary benefit' (*ibid.*).

This section has examined the pensions policies pursued by the Conservatives and Labour from the mid 1950s through to the 1970s. The Conservatives were not opposed to state provision; rather they favoured a more minimalist approach than Labour. The key difference between Labour and the Conservatives was about differing degrees of commitment to the socialisation of risk. Labour argued that occupational pensions could not cover all the working population. 'For a number of reasons [OPS] do not – and cannot – cover the whole of the working population against all contingencies for which long-term benefits are needed. [For example] coverage is far better for staff than manual workers and for men than for women: most [OPS] do not yet make adequate provision for members forced into premature retirement through ill-health: the arrangements for preservation of pension rights when someone leaves a pensionable employment are still incomplete' (*op. cit.*, para.5). Thus as Brown and Small stated, 'the most obvious difference between the state and occupational sectors of social security lies in the extent of the coverage offered. The State provision offers universal cover in one form or another' (1985, p.226). Thus with the introduction of SERPS in 1976, it sought a central role for the state in dealing with risk in old age.

While successive Conservative governments attempted to minimalise the socialisation of risk, their policies contained a number of collectivist elements. The concept of collectivisation of risk is that employers under state regulation could set up occupational pension schemes (OPS) which were made a condition of employment. However, the OPS during this period were predominantly defined benefit (DB) where the risk in payment is placed on to the employer. Thus the private sector had a role in providing social protection but at the same time the state's role to provide social protection remained significant owing to the limited coverage of the OPS. During this period membership of occupational schemes remained a condition of employment; improvements were made to preservation and portability of benefits; and minimal inflation proofing of pensions of early leavers were required by the 1975 Social Security Act (Waine, 1998, p.47). Such collectivist provision had certain pragmatic advantages, for example, lower administration costs (see Hannah, 1986, pp.36-37). 'If during this period, Labour was the party of State pensions, the Conservatives were the party of occupational pensions' (Waine, 1992, p.32). If risk was not socialised it was collectivised. This was to change in the 1980s.

The Conservative Party: 'A break with consensus' – the introduction of individualisation of risk

Throughout the post-war years, the Conservative Party, whether in office or opposition had accepted the post-war settlement of the Welfare State: yet there was always a strand of neo-liberal philosophy which was critical of that settlement. This critique was to provide some key features of New Right Conservative politics of the late 1970s onwards. For example, hostility to collective provision, which was seen as pre-empting individual choice and diversity of provision (Waine, 1995, pp.318-319). With the election of the Conservative government in 1979, anxious to distance itself from both its Labour and Conservative predecessors, this neo-liberalism was absorbed into mainstream British politics. The main strands of Conservative policy post-1979 were: the reduction of public spending; the desirability of increasing choice; and the promotion of individual property ownership. It was the latter which was a novel feature of Conservative politics of this period.

Support for such a philosophy had implications for social welfare provision. Thus John Moore, when Secretary of State for Social Services in a speech in 1987 classified the population into two distinct groups: those making provision for themselves independent of the State: and those dependent on the State. The objective of Conservative policy was to make the 'dependent' independent (Moore, 1987, discussed in Waine, 1995, p.320). Individual ownership of wealth was a key means of securing such independence. While such ownership was pursued via the sale of public utilities it was also of significance in a key area of social policy, namely pensions.

As discussed above, Conservative governments had pursued a pensions policy in the 1950s - 1970s of a limited role for the state with a commitment to occupational provision that is minimal socialisation and an emphasis on collectivisation.

In 1983, Norman Fowler, then Secretary of State for Health and Social Security, announced a special inquiry into the future development of pensions. He referred favourably to a proposal emanating from the right wing think tank, the Centre for Policy Studies, for a personal and portable pension. The aim of this was 'to encourage schemes in which the individual member knows what his personal stake in a pension fund is and can identify the units of pension wealth that he has built up. At the minimum this would promote greater interest in the development of and investment of funds but the ultimate aim would be that people leaving a job would be able to take with them the pension wealth that they had built up in that scheme' (Hansard, vol.49, col.358). This proposal, together with similar ones from other New Right think tanks was a key feature of the 1985 Green Paper on the Reform of Social Security 'which converted the personal pensions from an ideological concept into a tangible option' (Waine, 1995, p.321) by introducing it as an alternative to

SERPS (which was to be abolished) or occupational schemes where membership was no longer to be a condition of employment. Although the Green Paper argued that SERPS should be abolished because the long-term costs were unsustainable (DHSS, 1985, p.4), the real issue was that neither SERPS nor occupational schemes were a reflection of the political ideology being pursued.

SERPS was a defined benefit scheme (this was also the case for the majority of OPS) which guaranteed levels of benefits dependant on earnings: both could be seen as paternalistic in that the employee usually had to be a member of one or other scheme; finally prospective pensioners did not control pension funds (in respect of the OPS, see Seldon, 1960, p.15). Nether promoted individual ownership: for this the Conservatives turned to personal pension (PP) previously the domain of the self-employed. The PP is a money purchase scheme (MPS) where returns depend upon levels of contributions, investment returns and administrative charges. The MPS, as a defined contribution scheme, contrasts with defined benefit schemes where benefits in retirement are determined by the schemes accrual rate and length of personal service. The Green Paper stated that 'for employers, money purchase schemes offer a known real level of commitment without the open-ended promise of a defined benefit scheme. To the employee it gives an identifiable sum of pension savings which belong directly to him. For many people this will become the biggest asset they own - worth more than their own home' (DHSS, 1985, p.6). In addition, a PP encouraged 'freedom of individual choice' (*op. cit.*, p.7). The PP was also flexible in that it could be transferred from job to job and job mobility was for the Conservative Party 'an important factor of economic prosperity' (Araki, 2000, p.608).

In summary, the Conservative government identified three key benefits of the PP: as a portable scheme for early leavers from OPS; as a way out of SERPS; as a way of accumulating investment in the market, which would consequently lead to economic prosperity (*ibid.*). With the subsequent 1986 White Paper on the Reform of Social Security Act, the PP became a cornerstone of the Government pension policy.

At one level, the PP could be seen as a success story. Original estimates were that half a million people would take out a PP, as a replacement for full membership of SERPS or an OPS (National Audit Office (NAO), 1990, para.318). By the end of 1992/3 5 million people had a PP (DSS, 1994, p.9), the majority of these having opted out of an employer's scheme. However, quite quickly, problems with the PP as financial product for saving for long term benefit began to emerge. (It should be noted that some of these problems had been noted when the 1986 Social Security Bill was in committee stage (Waine, 1995, p.324)). The problems were twofold: the way in which the PP was marketed in the late 1980s, but more importantly the characteristics of this financial product. The first of these problems refers to the 'misselling' of the PP to people for whom they were unsuitable.

Low earners had predominantly purchased the PP; in 1992/3, the median earnings for an individual with a PP were £8,060 (DSS, 1994, p.14). The definition for low pay for the same period was below £10,259 p.a.[5] (Low Pay Unit, Oct/Nov 1993, p.5). By 1993/4 women, who were more likely to experience low pay *per se*, accounted for 2.08 million, 37%, of all PP purchases (DSS, 1997, p.25). This led to a number of lapses and in 1993/4 alone, 233,000 terminations were experienced (*op. cit.*, p.17). The Personal Investment Authority (PIA), in their survey of persistency of regular premium personal pensions taken out in

1993 and 1994, found that 16% of pensions sold by company representatives were terminated after one year: after two years the equivalent rate for 1993 was 28% (Office of Fair Trading, 1997a, p.77). A key reason behind this 'misselling' was the government incentives to contract out of SERPS or OPS; the state offered a 2% incentive for the first 5 years. The National Audit Office calculated the rebates paid into personal pensions during this period would cost the National Insurance Fund £9.3 billion. And whilst £3.4 billion would be saved in SERPS pensions that would not now have to be paid, this left a net cost of £5.9 billion (The NAO, 1990, para.14).

Yet not only had the government incentives encouraged 'misselling', the role of financial advisors was also very significant. Financial advisors had encouraged many with small investments that the PP was a viable alternative to the state. As Waine stated, LAUTRO (Life Assurance and Unit Trust Regulatory Organisation: the self-regulating body for the life insurance industry) '[gave] misleading advice which encouraged people to contract out of SERPS' (1995, p.325). But the 'hard sell' approach employed by financial advisors should not have been a surprise as their salaries were predominantly commission driven; hence volume of sales was important. As the OFT stated, 'consumer detriments [namely the limited knowledge of the personal pension] correspond to a *rational information shortfall,* ... high pressure sales tactics were used to mislead consumers at a time when the product was relatively new and it was particularly difficult for the majority of consumers to understand it' (1997b, p.88). For example, women were sold PP on the grounds that they were often not served well by other pension schemes due to the frequent changes in their working pattern particularly SERPS after the 1986 change. As Davies and Ward showed in their study, flexibility of the PP was the most common advantage promoted to women by

[5] The LPU definition of Low Pay is 2/3 of median male earnings and uses New Earnings Survey data.

financial advisors (1992, p.41). However, Waine stated, 'the minimal contribution, combined with the money purchased nature of the PP is unlikely to provide an adequate pension in retirement' (1992, p.41) to all with low contribution levels.

Secondly, consideration needs to be given to the characteristics of this financial product, the PP. It is a MPS with the sum available for purchasing a pension depending upon the level of contributions, return investments and charges. The final fund is used to purchase an annuity. Each of the elements is potentially problematic. Contribution levels may be low: with the PP a minimum contribution only is required, namely the National Insurance contracted out rebate set at a minimum of 4% (DSS, 1985, p.6). The capital sum depends on how well the premium is invested and this in turn is linked to the behaviour of markets (see Schulz, 2000, pp.100-101). Charges with the PP are front-loaded, for example, 'transfer to a PP can result in costs as high as 25% of the transfer value, in addition to annual commission of 2.5% of the annual premium' (*op. cit.*, p.99). The eventual fund is used to purchase an annuity which provides an income throughout retirement. Currently this must be purchased by the age of 75. Annuities, however long they are deferred, are at whim of the market. Hence, timing of retirement is critical, yet because of market vagaries the annuity is out of the individual's control. 'For example, an individual who retired at the time of the stock market crash world-wide on 30th October 1987 would have received an *annuity benefit* that was 30% less than if they had retired a week earlier' (*ibid.*).

To summarise: Conservative governments in the period 1983-1997 reformed pension policy away from attempting to collectivise (and to some extent socialise) risk to increasingly allocating risk to the individual. The concept of individualisation of risk is to place a greater responsibility on the individual to provide for themselves via private and voluntary insurance. Only minimal protection is assured by the state. This was underpinned by individual ownership and the key financial product to secure this the PP. The above discussion has suggested that a number of problems began to emerge with the individualising of risk in respect of pensions. The final section will focus on how New Labour since 1997 has responded to the pension policy it inherited.

The Labour Party: 'A new consensus' – the continuation of individualisation of risk

The Labour Party had opposed the 1986 pension reforms and in the 1987 Manifesto had committed itself both to the restoration of SERPS and the re-establishment of the link between pensions and earnings whichever was the highest (Labour Party 1987, p.4). This position was confirmed in the 1992 Manifesto (*op. cit.*, 1992, p.22). However, during the period 1992-1997 the Labour Party began to rethink its pension policy (Waine, 1998, pp.159-160). In the 1997 Manifesto it reaffirmed a commitment to the basic state pension, with annual increases in line with prices. Occupational schemes and personal pensions would continue and SERPS would remain an option for those wishing to remain in it. The centrepiece of the proposal was to be a stakeholder pension (SHP) for those 'on low and modest incomes with changing patterns of employment [who] cannot join good value second pension schemes' (Labour Party, 1997, p.27). Following the May 1997 election victory, the Labour Government announced 'a wide-ranging review of pensions' (Hansard 17th July 1997, col.239).

The subsequent Green Paper: *A new contract for welfare: Partnership in pensions* was published in 1998. Introducing the proposals the Paper stated, 'we are building a new contract for pensions between the state, private sector, and the individual. We believe that those who can save for their retirement have the responsibility to do so, and that the State must provide effective security for those who cannot' (DSS, 1998, p.iii). While accepting that the state had a responsibility for pension provision, the Green Paper stated that the intention of the Government was to reverse the public/private balance of pensions income currently 60:40, by 2050 (*op. cit.*, ch.4, para.18). The basic state pension would continue: in respect of second tier pension provision the government would continue to support both occupational and personal pensions, while at the same time noting the disadvantages of both.

Thus occupational pensions 'can be unsuitable for those who move jobs frequently' (*op. cit.*, para.25) as contributions can only be made from earned income. In addition, occupational schemes are not available to all employees as just under one-fifth of employers do not currently provide such a scheme. This is due to the decline in the numbers of people employed in large companies where there is a strong tradition in such provision and that since 1988, employers have not been allowed to make membership of a scheme a condition of employment (*op. cit.*, Ch.3, para.5). Alternatively, personal pensions can be attractive for people that do not have access to an occupational scheme but high up-front charges make them unsuitable for people who have low or intermittent earnings (*op. cit.*, para.8) and '[therefore] inappropriate for those with flexible careers' (*op. cit.*, para.25). Moreover, the legacy of 'misselling' still has tainted the personal pension (*op. cit.*, para.9). But essentially, many personal pensions do not give the best value-for-money option as they are not cost effective to run (*op. cit.*, 1998, para.10).

SERPS was said to give 'least help to those on the lowest incomes' and members do not have their own 'fund' a pot of money ... this makes SERPS inflexible: members who want to save more cannot do so' (*ibid.*). SERPS would be replaced by the state second pension (S2P) and this would be aimed at those on low incomes (under £9,000 in 1998). The S2P has been designed with the stated aim of being more beneficial than SERPS for those earning less than £10,500 p.a.[6], at this cut off point a worker will receive 40% of earnings (twice the rate of SERPS). All contributing employees' earnings up to this will be treated as if they had an average lifetime earnings of £10,500 p.a.. Above this level and below £24,000 a worker will receive 10% level of earning (half the rate of SERPS) (see DSS, 1998, appendix 1). 'At the heart of our reforms are new stakeholder pensions schemes, which will be secure, low cost and flexible' (*op. cit.*, p.5). The SHP scheme is an individual funded money purchase scheme which 'will help many more middle earners to save for a comfortable retirement' (*op. cit.*, 1998, ch.7).

Therefore, the aim of New Labour government pensions policy at this time was 'to provide security in retirement for individuals by encouraging them to make as much [of their own] provision as possible' (Rowlingson, 2002, p.627). This aim was continued in the later Green Paper, *Simplicity, security and choice: Working and saving for retirement*, which built on its 1998 predecessor and aimed both to simplify the pensions framework, thus allowing 'the vast majority of people [to] … be able to save more in a pension than existing rules allow (DWP, 2002, p.5) and provide better information about the financial products available; helping people to make informed choices (*ibid.*). The commitment to private sector provision either through the SHP or the workplace was not questioned. The fundamental emphasis of the 2002 Green Paper was to make these forms of provision work more adequately.

[6] In the Green Paper, the 1998 lower level and upper levels were set at £9,000 and £18,500. The lower and upper levels of £10,500 and £24,000 are the 2002 figures.

Thus Labour had marginalised state provision: it had embraced individualised forms of provision. Both mark a significant shift with past Labour pensions policy (Waine 1998, pp.158-161). This is consistent with the political repositioning of the party and the policy of post 1997 Labour Governments.

Thus to summarise, post war pension policy shifted firstly from a socialisation of risk to a collectivisation of risk. This was a result, in part, of the failure of the Beveridge Report to deliver a subsistence pension owing to the changes to the proposal by the time it was implemented. Consequently, Beveridge's attempts to socialise risk: 'pooling the risk' between state, employer and employee were challenged both by the Labour Party and the Conservative Party. Labour wanted greater state participation, aiming to introduce its National Superannuation Pension, whilst the Conservatives wanted greater private sector involvement. However, the Labour Party's intrinsic ties with the Trades Unions, which supported the principle of the DB OPS schemes led to a consensus that saw an increased but regulated private sector role in pension provision. Employers could make approved OPSs a condition of employment.

Secondly, there was a shift from collectivisation of risk to individualisation of risk. The 1979 Conservative Government broke with consensus and deregulated the role of the state in protecting employees in private sector pensions, whilst at the same time decreasing the value of the state pension in real terms, increasing the risk onto the individual. They promoted their own money purchase scheme (MPS): the PP. Although this was not new in principle, the extent to which the Conservative Party promoted the PP was significant. However, the initial success of the PP was short lived, owing to 'misselling' and failure of the PP to provide a guaranteed pension. Yet despite this, 'New' Labour has introduced their own MPS - the SHP - which they claim is a safer and cheaper option. An insight into such repositioning is provided by attempts to theorise the concept of risk.

The 'risk society': The concept underpinning Labour Party policy

Labour's repositioning in pension policy is inherently linked in with the concept of a 'risk society', developed by Ulrich Beck in 1986. The 'risk society' aimed to find a balance between social democracy and neo-liberalism. Essentially Beck's work challenged the need for collective provision in a world in which populations faced 'new' risks. In the past risks also existed but these were 'natural' and 'external' to society, now risks were 'internalised' and 'manufactured' (Beck 1998, pp.10-12), a shift Beck claims is the result of the traditional society being superseded by a new modernity. Consequently, the paternalistic welfare state as it once was, had to be more flexible. Beck argued that 'the welfare state can be seen as a collective and institutional response to the nature of localised risks and dangers, ... [but] risks that were calculable under industrial society are unpredictable in the 'risk' society' (*op. cit.*, pp.15-16).

This is because in the new modernity a change has occurred, for example, the concept of the male-headed nuclear family is out of date and the woman's 'role' has increasingly moved out of the household and into the labour market. No longer can full-employment and full-time work be the accepted norm, rather it is to be replaced by a 'new' flexibility where individualisation and globalisation have taken over from collectivism and nationalisation. Beck advocates reform of the welfare state in the wake of these 'new' risks. No longer is it a safety net from risk that people collectively faced but more to empower those who face risks (see Fitzpatrick, 2002, p.12). This is because Beck claimed that risk distribution is replacing wealth distribution (1992, p.19) and that redistribution of wealth as welfare policy is no longer a necessary objective.

Beck's 'risk society' does not discuss pension policy but his theory suggested a greater responsibility on the individual to save for their retirement with minimal support from the state. The state would predominantly serve in an advisory role aiming to empower individuals to negotiate risk, namely to make informed decisions with regard to saving. The occupational sector role in pension provision in the 'risk society' is seen as less relevant due to the increased flexibility of the labour market.

Significantly, Giddens' popularisation of Beck's work had a key influence on Labour's welfare policy. Embracing the 'risk society' debate, Giddens developed the fundamental ideology of Beck's work in his own attempt to create a new social democracy, the 'third way' (see 1998a, p.28). Giddens was concerned to explore the impact of redefining social democracy on welfare policy. For example, Giddens is more explicit in his acknowledgement of the role of the private sector in his renewal of social democracy. Giddens believes that neo-liberalism has an important role to play in society, particularly, in maintaining a strong economy. Yet at the same time people need to be protected from unhindered capitalism (see Giddens, 1998b, p.100). Furthermore, he recognises that the 'new' risks in the 'risk society' would fall unequally on people, especially on those he identifies as the socially excluded. Nevertheless, he argues that cultural factors are of crucial importance in the persistence of exclusion (*op. cit.*, pp.104-110). This is an essential element of the 'risk society' debate which justifies minimal wealth redistribution. Giddens states that 'redistribution should not disappear from the agenda of Social Democracy ... but there needs to be a shift to redistribution of possibilities' (*op. cit.*, pp.100-101). Importantly, he sees the welfare state as a restriction on individual freedom, yet the welfare state rather than being dismantled needs reconstructing (see *op. cit.*, pp.112-113).

Principally, as with Beck, Giddens believes that 'the welfare state is not geared-up to cover new styles of risk' (*ibid.*). He proposes that 'new' risks are occurring but our advancement in knowledge, via social reflexivity, is making us more aware of them and that not all these risks are negative. 'Welfare reform should recognise that effective risk management (individual or collective) does not just mean minimising or protecting against risk: it also means harnessing the positive or energetic side of risk and providing resources for risk taking. Active risk taking is recognised as inherent in entrepreneurial activity' (*op. cit.*, p.116). Therefore, risk taking is considered the norm in Giddens' 'Social Investment State' in which 'the contract between individual and government shifts, since autonomy and the development of the self – the medium of expanding individual responsibility - becomes the prime focus' (*op .cit.*, p.128).

As with Beck, Giddens does not specifically discuss pension policy but the key elements of Beck's ideology were consistent with Giddens' aim to reform the welfare state to take account of 'new' risks. The risk society concept is clearly identified in Labour's pension policy. The SHP embraces the 'risk society' ideology in which active risk taking is encouraged, whilst the role of the state is marginalised. For example, the SHP promotes the entrepreneurial spirit of neo-liberalism as it is a MPS, like the PP and is 'a defined contribution scheme ... returns will be based on contributions and the investment performance of the plan' (Waine, 1992, p.34). The role of the state is to regulate the private sector reducing any potential problems such as mismanagement of funds and 'misselling', whilst at the same time encouraging individual responsibility.

Whilst it is clear that the repositioning of Labour's pension policy is influenced by the concept of the 'risk society', this can be argued to be a fundamentally flawed concept. Taylor-Gooby argues, that Giddens' ideology 'envisages the transition to risk society as bound up with a shared experience that affects all members of society in the same way and has a common effect on attitudes and assumptions, including expectation of government. It is a value-consensus theory' (2001, p.196). Simply put, it assumes equal interests amongst society with a cure-all approach to how society should be served. It also assumes via social reflexivity that increased knowledge will expose the limits of government and that society will favour 'a retreat from interventionism and tax-and-spend and the promotion of proactivity through enhancement of opportunity, privatisation and subsidiarity' (*op. cit.*, p.199). Yet, it is frequently suggested that the 'risk society' is based on social theory with little empirical analysis. And 'if social groups differ in their apprehension of risk or the desirability of state intervention, it is more difficult to draw simple conclusions about the way forward for government from the theory' (*ibid.*). Taylor-Gooby's empirical study found that working class people correctly expressed concern about the paths open to them in 'risk society'. Significantly, they still believe that the traditional welfare state is important to them (*op. cit.*, see pp.209-210). Therefore, the key assumption that in a 'risk society' people favour the less interventionist view is a class based one. As Taylor-Gooby concludes, 'it would be unfortunate if the risk society approach served to justify policies which support the interests of the groups that are most able to deal with the contingencies of a more flexible society' (*ibid.*). This raises the question of whether within a 'risk society' framework, which advocates individualisation of welfare provision as opposed to collectivism or socialisation, there can be adequate support for the low paid during retirement.

CHAPTER 2: AN ANALYSIS OF LOW PAY AND THE LOW PAID

We have seen how governments' approach towards pension policy changed from one based on socialisation of risk to one based on individualisation of risk. This thesis is specifically concerned with how this change affects the low paid. Therefore, we now turn to examine the issues and problems of low pay, especially its links to poverty in retirement. Historically, low pay has been identified as a problem at least since Seebohm Rowntree tried to define the concept of poverty scientifically in his study of working families in York: *Poverty, a study of town life* (published in 1901). His survey was much influenced by the survey of London carried out by Charles Booth in 1892: *Life and labour of the people in London.* Both Booth and Rowntree demonstrated that many families had incomes below the poverty line. The importance of Rowntree's study is that it opened up debate on the issue of low pay, which resulted in the establishment of the Trades Boards in 1909, which in 1945 became the Wages Councils. Yet a study by Abel-Smith and Townsend in the early 1960s showed the persistence of poverty and its links with low pay, identifying that one-fifth of families in poverty derived their main source of income from employment, and many families in poverty had at least one income earner (1965).

This chapter examines the issues in the continuing concern about low pay and will explore a number of themes. It begins with a definition of low pay, examining the Labour Force Survey and National Earnings Survey. There then follows a profile of the low paid, considering who are the low paid by analysing data on the low paid and how this has changed over time. The next section discusses the politics underpinning low pay, analysing the interventions and effectiveness of policy towards low pay. This includes a brief history of public policy, specifically the Wage Councils, the National Minimum Wage and the

Equal Pay Act. The problems and issues facing the low paid, including the insecurity of low pay as a result of the 'no pay, low pay' cycle, contract work, labour market flexibility, lack of fringe benefits, such as occupational pensions, and patterns of low pay are then outlined. Finally, the chapter raises evidence on who gets into debt, and how this affects them, concluding with a discussion of how new is the problem of security / insecurity; namely, in what ways, if any, it has changed.

A definition of low pay

The definitions of low pay not only vary in terms of the survey used but importantly also in how the threshold is set. Thresholds are usually set around three differing criteria: first, low pay can be identified as earnings at or below the lowest decile of a particular earnings distribution; second, it can be identified as earnings falling at or below two-thirds of median earnings, or less commonly mean earnings; thirdly, it could be considered as 'a level of earnings, which, after tax and cash benefits, would be sufficient to provide a family, usually consisting of a man with a wife (not working) and two dependent children, with an income level equivalent to what a similar family would receive if the breadwinner were unemployed and relying on supplementary benefits' (Duncan, 1981, p.4). The latter threshold adds to the debate the question should a definition of low pay concentrate on the individual or household?

Clearly, there are benefits and limitations to the various methods. Given that this thesis arose in collaboration with the Low Pay Unit (LPU) particular attention is given to the second threshold, two-thirds of male median earnings and focuses on the individual. The argument for targeting incidences of individual low pay can be justified on the ground that the 'nuclear family',[7] with its male breadwinner assumption, is an outmoded concept as more women enter the workforce and more people are living separately than in the past. Therefore, it is important that people are able to survive, if they have to, on their own earnings. With policies aiming to improve equal rights in pay, it is important that *all* those working are accounted for and that a high wage earner in a household does not hide incidences of low pay. Influencing these approaches are notions of personal autonomy and the ideal that one should receive a decent wage for work done. As Siltanen (1994, p.100) argues, '[a]lthough women, or men, on low wages may not experience material deprivation because of the support they receive from other household members, there is the issue of how low pay wages contribute to forms of dependency that are inimical to the status of citizenship in contemporary society … irrespective of gender and irrespective of household in which an individual lives, wages should be sufficient, at least, to support the wage earner as an independent adult' (as cited in Webb *et al*, 1996, p.258). The LPU's definition, which excludes overtime, is therefore justified by the following principles:

- 'Male earnings should be used because a base of the earnings of all employees would entrench the persistent gender inequality and discrimination suffered by women

- The median is the best measure to use, rather than the mean average, because over time average will become an ever moving target pulled up by any improvements in earnings brought about by the minimum wage

[7] The stereotypical 'nuclear family' refers to a male headed family in which the man is married to a 'non-working' wife and has two dependent children.

- Earnings are divided by basic hours in order to arrive at an hourly figure which represents a decent *basic* wage thus removing reliance on overtime' (LPU, 1997, p.7).

Further problems arise from the surveys used to identify the low paid. These consist of large and regular datasets. The New Earnings Survey (NES), favoured by the LPU, and the Labour Force Survey (LFS) are most commonly used, particularly when examining individual patterns of low pay. Other surveys include the Family Expenditure Survey (FES), as used in studies by Millar and Gardiner (2004), and Webb *et al* (1996). The British Household Panel Survey (BHPS) was much used by Stewart in his 1999 study and by Taylor-Gooby (2001). Other surveys used in low pay research include the Office of Population and Census Survey (OPCS), the Omnibus Survey run by the Office of National Statistics (ONS) and the Family and Working Lives Survey (FWLS). Significantly, each survey has its advantages and weaknesses and all contribute to the much needed work on low pay.

This thesis, although supported by studies using all the above mentioned surveys, predominantly uses the NES in alignment with the LPU's definition of low pay. The NES has many advantages over the LFS for the analysis of earnings. For example, it is a much larger dataset providing very accurate information from employers' payroll databases as opposed to the LFS, which relies on the individuals themselves to provide the information and is thus more prone to error. But as Stewart argues, the NES has a tendency to under represent those in receipt of low pay as it excludes most of those whose weekly wage falls below the PAYE (pay as you earn) deduction threshold (see 1999, p.226). Furthermore, there is a tendency for 'the NES to under-sample small firms, which are more likely to employ low paid people' (Metcalf, 1980, p.22). The result is that, while underestimating the extent of low pay, the information in the NES is more accurate than that used in the LFS. [8]

A profile of the low paid

Since 1945 different working definitions have been used to identify low pay, hence, it is difficult to make direct comparison through the years. Yet a broad examination of movements in earnings distributions in the UK was carried out by the National Board for Prices and Incomes (NBPI) in 1971, focusing on inter-industry differentials for full-time manual men, and on movements in occupational earnings differentials for different categories of male employees. As Duncan acknowledged, the study by the NBPI focused primarily on manual earnings distributions (1981, p.14) and therefore, has its limitations. These data and comparative data from the NES (1970-2002) show the continuity of low pay and the widening gap (expressed as a percentage of the median) of male manual average weekly earnings between the upper and lower decile of earnings, although a decrease was achieved in 2000/02 owing to the introduction of the National Minimum Wage (NMW). Table 2.1 indicates that overall there has been a decrease in male full-time manual earnings compared to the median by 4.5% in the lowest decile, whilst an increase in the upper decile of 15.7% has occurred since 1886.

[8] The recognition that there is a need to improve the methodologies used both by the NES and the LFS to define low pay has been recognised by the ONS, which during 2002 conducted a review of the methodology known as the 'central estimates' methodology. This, they state, will be a more accurate measure of low pay that uses Annual Survey of Hours and Earnings (ASHE). 'The ASHE methodology includes imputation and a weighting methodology that provides more accurate weights than those previously used for low pay estimates derived from the NES' (Milton, ONS, 2004). The results were published in October 2004.

Table 2.1: Dispersion of average weekly earnings of full-time manual men 1886-2000, deciles as a percentage of the median

Year	Lowest Decile as a % of median	Median (£) per week	Highest Decile as a % of median
1886	68.6	1.21	143.1
1906	66.5	1.47	156.8
1938	67.7	3.40	139.9
1960	70.6	14.17	145.2
1970	67.3	25.60	147.5
1976	70.2	62.10	144.9
1979	68.3	88.20	148.5
1982	68.3	125.20	152.6
1986	65.4	163.40	154.8
1988	64.3	188.00	156.5
1990	63.0	223.10	159.0
1992	62.9	250.70	158.5
1994	63.4	261.80	158.2
1996	62.1	280.00	161.6
1998	62.3	305.00	162.0
2000	62.4	320.30	160.8
2002	64.1	342.40	158.8

Source: LPU, Nov/Dec (2000) adapted from table 2, p.7; the LPU, Dec/Jan (1989) table 3, p.12 and the 2002 data from the NES, table A28. The NES data is used from 1970 onwards, prior to this is data from the NBPI.

Significantly, although showing a widening of income differentials, these data are limited to male full-time manual employees, owing to the structure of labour force that in the past regarded men as the main 'breadwinner' and manufacturing the dominant industry. But these data conceal that low pay historically has had greater effect on women and part-time workers as shown in table 2.2, and, as women were most likely to be part-time workers, this further increased their likelihood to be low paid. Work done by women or part-time workers was undervalued to the point that women and part-time workers would get paid less for doing the same job.

Table 2.2: Numbers and percentages of adult with gross hourly earnings below £1 – April 1976

EMPLOYMENT GROUP	FULL-TIME		PART-TIME	
	Numbers (millions)	%	Numbers (millions)	%
All men (manual/non manual).	1.08	8.7	0.39	55.6
Manual women	0.90	52.3	1.27	69.0
Non-manual women	1.15	30.3	0.84	52.5
Total (all adults)	3.13	17.5	2.50	60.4

Source: NES, as used by Duncan (1981, p.9).

However, a shift from the post-war Keynesianism, which stressed the importance of demand-side economics, was replaced by neo-liberalism in the 1980s, which was reliant on supply-side economics to drive the economy. The result was a change in the make-up of the labour force as many UK manufacturing jobs disappeared. The so-called 'jobs for life' were being replaced by the more precarious employment delivered by the service sector and significantly increased women's participation in the workforce (see tables 2.3 and 2.4).

Table 2.3: Total (thousands) and percentage of male and female employees in the manufacturing and service sector 1978-2002

	Male Employees		Female employees	
	Numbers in manufacturing (% of total male workforce)	Numbers in total services (% of total male workforce)	Numbers in manufacturing (% of total female workforce)	Numbers in total services (% of total female workforce)
1978	4,920 (30.6)	8,344 (51.9)	2,202 (20.2)	8,321 (76.4)
1982	3,893 (26.3)	8,262 (55.9)	1,689 (16.1)	8,433 (80.2)
1986	3,535 (23.7)	8,760 (58.8)	1,645 (14.2)	9,508 (82.1)
1990	3,443 (21.9)	9,449 (60.1)	1,597 (12.3)	10,872 (84.0)
1994	3,024 (20.7)	9,339 (63.9)	1,367 (10.5)	11,204 (86.5)
1998	3,201 (20.7)	10,025 (65.0)	1,274 (9.5)	11,762 (87.7)
2002	2,780 (17.3)	11,003 (68.6)	1,004 (7.2)	12,608 (90.2)
Total change	-2,140 (-13.3)	2,659 (16.7)	-1,198 (-13.0)	4,287 (13.8)

Table 2.4: Total (thousands) and percentage of all employees in the manufacturing and service sector 1978-2002

	All Employees	
	Numbers in manufacturing (% of total workforce)	Numbers in total services (% of total workforce)
1978	7,122 (26.4)	16,665 (61.8)
1982	5,582 (22.1)	16,695 (66.0)
1986	5,180 (19.6)	18,267 (69.0)
1990	5,040 (17.6)	20,321 (70.9)
1994	4,391 (15.9)	20,543 (74.5)
1998	4,475 (15.5)	21,787 (75.5)
2002	3,785 (12.6)	23,611 (78.7)
Total change	-3,337 (-13.8)	6,946 (16.9)

Source for table 2.3 &2.4 Employment – workforce jobs by industry in The Historical Supplement to the Labour Market Statistics First Release (ONS, 2004b). Data are seasonally adjusted and are based on December for each year.

Moreover, there was increasing need for labour to be flexible and adaptable under the new economic paradigm. At the same time there was some improvement in women's working rights influenced by the Equal Pay Act of 1970. Table 2.5 indicates the percentage of men and women paid below £7 per hour (the LPU's definition of low pay in April 2002 was £7.41) and £6 per hour (the government's measure of poverty for the same period was £6.08)[9]. It illustrates that in non-manual full-time employment, women's earnings improved when compared with the 1976 level (table 2.2), although compared with all men, still 4.1% and 2.4% were more likely to be paid less than £7 per hour and less than £6 per hour respectively. Women in full-time manual employment are 50.6% more likely to receive earnings less than £7 per hour and 43% less than £6 per hour compared to all men. The 1976 level identified a difference of 43.6%, thus at best only a slight improvement occurred taking the £6 as the cut-off point. Table 2.5 further identifies another trend, namely, part-time work continues to pay poverty wages and, excluding women in non-manual positions, this has increased since 1976 (see table 2.2). The total of all adults is 6.4% higher in the less than £6 category, highlighting the fact that part-time work still remains stigmatised as low status.

Table 2.5: Percentages of adults with gross hourly earnings below £7 & £6 – April 2002

EMPLOYMENT GROUP	FULL-TIME		PART-TIME	
	% < £7	% < £6	% < £7	% < £6
All men (manual/non manual).	21.6	11.8	67.9	56.7
Manual women	72.2	54.8	89.3	79.4
Non-manual women	25.7	14.2	58.1	43.7
Total (all adults)	25.6	14.9	54.0*	66.8*

Source: NES, 2002, table 39.1 & NES and 2002 Analyses by part-time employees, tables F25.2, F26.1: asterisk denotes my own calculations taken from tables F25.2 &F26.2

Importantly, what is different today is that more people are in part-time employment and therefore vulnerable to poverty wages. Tables 2.6 and 2.7 shows the expansion of part-time work since 1984, along with the increase of women in the labour force both in full-time and part-time work. Moreover, it shows that the lowest aggregate growth in employment was experienced amongst male full-time workers.

Table 2.6: Total (thousands) employees in employment 1984-2004

	All employees	
	Full-time	Part-time
1984*	19,019	4,985
1988*	20,146	5,603
1992	19,578	6,019
1996	19,499	6,510
2000	20,524	6,937
2004	21,025	7,351
Total change	2,006	2,366
% change	10.5%	47.5%

[9] For further information on how the LPU's and Government's definitions of low pay and poverty were calculated see chapter 5.

Table 2.7: Total (thousands) male and female employees in employment 1984-2004

	Male employees		Female employees	
	Full-time	Part-time	Full-time	Part-time
1984*	13,441	633	5,578	4,353
1988*	13,855	865	6,291	4,738
1992	13,128	992	6,450	5,027
1996	12,952	1,213	6,547	5,296
2000	13,529	1,368	6,995	5,569
2004	13,717	1,615	7,307	5,737
Total change	276	982	1,729	1,384
% change	2.0%	155.1%	31.0%	31.8%

*Source for table 2.6 & 2.7: Employment – full-time, part-time and temporary workers in The Historical Supplement to the Labour Market Statistics First Release (ONS, 2004b). Data are seasonally adjusted and are April to June figures except * which are March to May.*

One important factor in identifying these changes is that the shift from manufacturing to the service sector has increased a worker's chances of being low paid. Table 2.8 indicates that, except in the case of women employed in manufacturing manual work, the service industries contained the majority of the low paid workers in 1977, and therefore, the movement towards the service sector indicated in table 2.3 was likely to increase the numbers in low pay, assuming no other policy change. As a study by Howarth and Kenway indicated in 2003 (taking £6 an hour or £250 per week as the low pay threshold), manufacturing only accounted for 7% of low paid employment, whilst 68% was concentrated in five service sector industries, with retail alone accounting for 23% (2004, pp.26-27).

Table 2.8: Low pay by industry 1977

	Men		Women	
	Manual	Non-manual	Manual	Non-manual
	% low paid in industry	% low paid in industry	% low paid in industry	% low paid in industry
All manufacturing	28%	18%	53%	19%
All services	55%	76%	43%	77%
Others	17%	6%	4%	4%

Source: Metcalf 1980, p.28, adapted from table 2.9.

Tables 2.9 and 2.10 identify the low paying jobs for both men and women. Again this identifies with only two exceptions that the service sector is the dominant low paying industry, with Hotel and Catering featuring most frequently. Another interesting aspect that stands out from table 2.10 is that women are still being paid less for carrying out the same or similar work despite the implementation of the Equal Pay Act, suggesting that there is still some way to go to resolve gender inequalities in the labour market.

Table 2.9: Low paying employment: The top ten low paying jobs for full-time males in April 2002

FULL-TIME MALES ON ADULT RATE	
Retail Cashiers and Check-Out Operators(RW)	£188.40
Launderers, Dry Cleaners, Pressers (PPS)	£195.20
Kitchen and Catering Assistants (HC)	£201.00
Bar Staff (HC)	£208.00
Waiters (HC)	£211.60
Cleaners, Domestics (PPS)	£215.80
Hospital Porters (HSW)	£215.90
Educational Assistants (E)	£220.20
Hotel Porters (HC)	£222.10
Agricultural Machinery Drivers (TC/A)	£222.80

Table 2.10: Low paying employment: The top ten low paying jobs for full-time females in April 2002

FULL-TIME FEMALES ON ADULT RATE	
Waitresses (HC)	£172.20
Launderers, Dry Cleaners, Pressers (PPS)	£178.00
Bar Staff (HC)	£184.30
Retail Cashiers & Checkout Operators (RW)	£189.00
Hairdressers (PPS)	£187.30
Kitchen and Catering Assistants (HC)	£190.80
Shelf Fillers (RW)	£191.90
Cleaners, Domestics (PPS)	£193.20
Labourers in Process & Plant Operations (C)	£198.80
Sales and Retail Assistants (RW)	£196.30

Source for tables 2.9 and 2.10: NES, April 2002, taken from tables D13 – D13a, pp.114-142. The rates exclude overtime and are not affected by absence.

Industry codes: RW – Retail and Wholesale; PPS – Personal and Protective Services; HC – Hotels and Catering; HSW – Health and Social Work; E – Education; TC –Transport and Communication A – Agriculture and C- Construction

Beyond gender, part-time work and industry, other inequalities have also been observed. A study by Stewart, using £4.50 per hour as the threshold, identified that the following groups were also prone to low pay: 18-20 year olds; those without qualifications; ethnic minority groups; private sector workers; employees in small firms; those recently employed; and people without Trade Union representation (see 1999, pp.232-233, table 13.2). However, on some of these variables, statistical significance and available data are limited. For example, a study by Howarth and Kenway argues that although ethnic minority groups show slightly higher proportions of workers classified as low paid than for the workforce as a whole, this is probably not significant given the relative shortage of data on almost any aspect of ethnic minorities' economic circumstances (2004, p.24). Yet the study goes on to recognise that 'among workers who are not in a union, more than 50% of those on less than £5 an hour are part-timers, compared with around 10% for those on more than £10 an hour, whilst the picture on unionisation in London is particularly telling. Black and Minority Ethnic (BME) workers are increasingly concentrated in London's low pay sectors such as retail, distribution, hotels and catering, where white workers' presence is actually declining' (*op. cit.*, p.33). A study by Abrams (2002), expressed the difficulties experienced by ethnic minority groups and immigrant workers as well as women workers in the private sector, specifically in catering, care work and the cleaning industry, particularly as a result of no union protection. Moreover, she discovered by working in these industries extensive exploitation, including how the minimum wage could be flouted, for example, by charging workers for their work uniforms. In the public sector and other union protected employment, this exploitation is reduced, though not eliminated. In addition, many public sector catering, care work and cleaning jobs have been contracted out to the private sector. Consequently, it is important to recognise that various inequalities do exist in the labour market and this is not just linked to ability but social standing. Moreover, low paid work for many becomes a lifelong experience as people are trapped in what is often know as the 'low pay, no pay cycle' as many service sector jobs are particularly insecure. Not only are workers easily dispensable but more exposed to cuts when economic downturns are experienced. The next section will discuss the politics underpinning low pay and address key policy interventions and their effectiveness in alleviating low pay.

The politics underpinning low pay

During the period 1945-79 economic policy was dominated by Keynesianism. It was based on a demand-led strategy relying on domestic production and dominated by the manufacturing sector. This system was interventionist, with workers and their families supported by a strong welfare state in times of illness and unemployment, as advocated by the Beveridge Report in 1942. Yet in most cases the family was usually based around the traditions of a (white) working male with his wife at home bringing-up two children. This led to the undervaluation of work carried out by women, reinforcing their then low economic standing in the workforce as feminised work[10] was often regarded as unskilled. It also legitimised class and racial divisions, resulting in a segmentation of the labour market (see Craig *et al*, 1982, p.77). However, the assumption was that pay is based on the ability and productivity of the worker and hence, if a person was low paid, this was thought to

[10] Feminised work was often service sector work, such as care work, hotel and catering and retail work as well as menial manufacturing positions. But importantly, although these jobs were predominantly held by

reflect their skills or the value of the work done. Rather than viewing low paid employment as the result of 'exploiting' the disadvantaged position of particular groups in the labour market, wage increases beyond individual productivity or efficiency were perceived as wage distortion. Wage increases were to be resisted as detrimental to the economy, leading to rising inflation and unemployment. Yet these views were questioned. Wootton stated, 'wages and salaries are extremely unequal; and the spread from the top to bottom far exceeds the range of differences that can credibly be ascribed to variations in born aptitude. It is also greater than can be accounted for by the cost of acquiring the necessary training' (1962, p.66). Craig *et al* similarly concluded in their analysis of low paid employment in five industries that low pay is the result of low product valuation of the goods and services produced and the low market status of the workers employed rather than reflecting objective differences in job content (1982, p.82). Significantly, this belief that a worker's skills and ability underpin their earning potential, rather than being the result of labour market inequalities, has fundamental impact on the likely success of policies on low pay, not least because at best it leads to a minimalist approach towards reducing low pay.

Interventions and effectiveness of policy towards low pay

This section examines post war government policies towards redressing low pay and the extent they achieved their intended aims, it will draw out the achievements and failings of these policies in light of the persistence of low pay.

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women they were not exclusively carried out by women and in fact changes have seen more men move into these positions as the first section indicated.

The Wages Councils (previously known as the Trades Boards) were supported by Ernest Bevin, when Minister of Labour in 1945. They had been expanded to cover the retail and distribution trades and to encourage collective bargaining to prevent wages dropping (as they had in the inter-war depression). They were introduced to protect the lowest paid workers, specifically in trades with no or poor union protection. As Rothschild stated, 'in certain trades, trade union organisation remained weak or did not come into existence at all, partly because of the small-scale nature or the predominance of a young female labour force [and] partly because of successful anti-union action on the part of the employer' (1954, p.150). Labour launched a White Paper: *Personal Incomes, Costs and Prices* (Cmd. 7321, 1948) in order to encourage restraints on wage increases. This, Bayliss noted, had some effect in 1948 as Labour and the subsequent 1952 government, satisfied with the Wages Councils' demands, approved of their increases (see 1962, p.97). The Conservative government in 1961, less in favour of collective bargaining, wanted a wage pause and, as the Secretary of State had the final say as to whether a wage increase could be approved, chose to exercise some muscle by rejecting some of the requests put forward by the Wages Councils. The threat of strike action, however, forced the government to back down but still they succeeded in delaying the increases (see *op. cit.*, 1962, pp.98-99). This tactic was used again by the 1964 Labour Government, though making some exception as with respect to agricultural workers (see Field & Winyard, 1977, p.6). Continuous government stalling and interventions, particularly from the Conservative government, left many Wages Councils wage demands falling behind rising prices by 1970. From the mid-1970s, during the recession, earnings for industries covered by the Wages Councils grew more rapidly than in other industries. This continued into the 1980s, but owing to labour market deregulation, unemployment started to rise, brought about by the 1979 Conservative Government's shift towards neo-liberalism. This was a noticeable break with the previous policies being against government intervention on social issues and rejecting the concept of the state setting earnings. It was part of the ideology of 'rolling back the state'. The concept of Wages Councils was attacked on ideological grounds. Enforcement decreased. Fewer employers were prosecuted if they refused to pay the required rate. This ensured that the Wages Councils lost their power to increase the wages of the low paid. Furthermore, low pay had started to affect other trades not covered by the Wages Councils leading to debates by politicians, unions, and pressure groups, such as the LPU, as to whether incomes policy would better serve the low paid. Consequently, by 1993, Wages Councils were finally abolished.

The 1970 Equal Pay Act, introduced in 1975, alongside the Sex Discrimination Act, aimed to improve the rights of women to equal treatment with a man when carrying out broadly similar work or work given equal value to a man's job in a job evaluation exercise. A five year lag was designed to prepare employers and give organisations enough time to prepare for the implementation of the Acts. The success of the Equal Pay Act has been much debated, particularly with regard to the job evaluation exercise. This is because the many prejudices that existed towards women in the workforce remained. Even after the Equal Pay Act was introduced, employers found ways to avoid paying women equally, especially if the jobs were similar but not identical. Here jobs were judged on a points system in which male attributes, such as physical effort, or advantages, such as skill levels, (which benefited a man as he was more likely to have the in-work training) were used to grade work. 'The disadvantages of the points system with reference to equal pay lies in the fact that there is no scientific basis of awarding points … points awarded to each factor is decided by management, perhaps in consultation with trade unions, but it basically rests on their value judgement. This often militates against women, as more value, and therefore points, is often attached to men's work' (Mitchell, 1977, p.73). Yet underpinned by the Sex Discrimination Act, improvement to women's wages differentials could be attributed to the Equal Pay Act, (see table 2.11). Significantly, the impact of these Acts starts to tail-off by 1980, emphasising their limits to resolve gender inequality in earnings. This was highlighted by a study by Zabalza & Tzannatos (1985), who concluded that although the Equal Pay Act and the Sexual Discrimination Act clearly had some impact in improving wage differentials for women, this improvement was limited owing to other inequalities that exist, namely, women's continuous participation in the workforce is notably less than men's because of their role in raising and/or looking after their family: 'This differential could of course be narrowed down further, but we believe that for this to be achieved other types of changes, making female participation in the labour market easier or more attractive, would need to take place' (*op. cit.*, p.15). Interestingly, the Equal Pay Act was introduced by Barbara Castle, who was 'also involved in discussions about a national minimum wage, ... equal pay [was] posed as an alternative and it appears that the choice was made more in terms of cost than of benefit to women workers' (Mitchell, 1977, p.75). This suggests that even at this point it was felt that the Act would have limited success as opposed to a national minimum wage.

Table 2.11 Relative hourly earnings: Women's pay as a percentage of men's pay 1970-1980

Year	All women
1970	58.0%
1971	58.8%
1972	59.5%
1973	59.8%
1974	61.1%
1975	66.1%
1976	68.1%
1977	68.5%
1978	67.0%
1979	66.0%
1980	66.6%

Source: Adapted from Zabalza & Tzannatos, 1985, table A4.1, p.116.

After 1980, the Equal Pay Act, as with the Wages Councils, had to compete with a deregulated market. Despite an amendment in 1983 to improve procedures in job evaluation, assuring that jobs were assessed on gender neutral attributes, only slight gains are found up until 1992 (see table 2.12).

Table 2.12: Relative hourly earnings: Women's pay as a percentage of men's pay 1984-2001

Year	All women
1984	66.4%
1986	66.6%
1988	67.1%
1990	68.8%
1992	70.4%
1994	70.8%
1996	70.7%
1998	71.2%
2000	72.2%
2001	72.0%

Source: Grimshaw et al, 2002, taken from table 1.1, p.3

This increase has been attributed not only to the tendency for women's employment to grow faster in occupations offering women better pay in the 1990s but also, and importantly, labour market deregulation had increased male unemployment (see Bruegel, 1999, p.81). Yet, evidence indicates that, although there has been an increase in women's participation in the workforce, this has tended to be in low paid service sector work. So if differentials are reducing, this would support the claims that this is the result of the feminisation of the workforce, in which men are more likely to be found in low paid full-time service sector work as opposed to an improvement of women's earnings overall. As stated by Bruegel, 'to some degree, improvements in gender equality have been gained at the expense of wider inequalities of income between households, and therefore in many ways at the cost of women living with low paid men; as a consequence their struggle to make ends meet has become more difficult over the last 20 years' (*op. cit.*, p.91). The failure of the Equal Pay Act is that it has not truly addressed women's status in society, namely the inequalities they face outside of work where they have been expected to sacrifice careers to look after children or other family members, resulting in many resorting to part-time work and unable to maintain continuous full-time employment. Table 2.13 shows that in part-time hourly rate ratio there is still a way to go if equality is to be achieved in this area.

Table 2.13: Relative hourly earnings: Women's pay as a percentage of men's pay 1984-2001

Year	Part-time women
1984	57.4%
1986	56.7%
1988	56.1%
1990	57.4%
1992	58.7%
1994	59.0%
1996	58.2%
1998	60.4%
2000	60.2%
2001	59.0%

Source: Grimshaw et al, 2002, taken from table 1.1, p.3

In 1997, Labour, as promised in its manifesto, introduced the National Minimum Wage (NMW). This had been widely supported by organisations such as the Trades Union

Congress (TUC), the LPU and politicians alike. Labour believed that the NMW would not only improve the working wage of the lowest paid but would reduce competition based on cheap labour between and in industrial sectors. But criticism of the NMW, such as that by the Conservative Party, suggested that it would create unemployment as employers' costs would have to be met by either raising product prices or decreasing labour costs by making redundancies. In their 1997 election manifesto, the Conservatives stated that 'many countries in Europe have tried to cocoon themselves from global competition behind layers of red tape and regulation - such as a national minimum wage. This provides a false sense of security, playing a cruel trick on working people. It also excludes the unemployed from work' (Conservative Party 1997).

The Low Pay Commission (LPC) was set up in July 1997 to oversee the impact of the NMW. In its fourth report it stated that 'the National Minimum Wage has brought about benefits to over one million low-paid workers. It has done so without any significant adverse impact on business or employment. … It has ceased to be a source of controversy and become an accepted part of our working life' (2003, p.vii). So much so, that even the Conservative Party, which had been hostile to it, changed their opinion: 'Mr. Michael Portillo, on becoming Shadow Chancellor, reversed Conservative Party policy on the basis that the arguments put forward over job losses by opponents of the minimum wage had been proved to be wrong' (Editorial from the IDS, March 2000, Report 804).

Yet although the NMW has been proven to date to have minimal effect on the business community, in spite of the fear of those on the Right, there have been criticisms that it simply does not go far enough. For example, in 1998 the LPC recommended that the minimum wage should be set at £3.60 per hour, with a developmental rate of £3.20 for adults aged 18-20. Labour accepted the former recommendations but changed the latter to £3.00 per hour and included those aged 21. This division has been defended on the grounds that it discourages displacement of older workers by younger workers. But it was much against the hopes of 'the TUC, who signalled its determination to press for an hourly rate of £4.61, or preferably £5.00, for everyone over 18 years of age. While George Bain of the government's Low Pay Commission told delegates that the rate of £3.60 would benefit two million workers, union leaders argued that another two million workers had been deprived of protection by the government's decision to exclude young workers' (EIROnline, 1998, September, UK9809151N).

Clearly, the cautious approach recommended by the LPC has had only a minimal effect in solving wages differentials - see tables 2.9 and 2.10. Moreover, it has only raised the wages of over a million workers (LPC, March 2003, p.vii), revised down from its projected aim of 2.05 million (9% of the workforce) in 1998 (LPC, 1998, p.133). The Wages Councils covered 2.5 million workers by the time they were abolished in 1993 (Metcalf, 1999, p.F59). This poor coverage concerned some academics, such as Sachdev and Wilkinson, who argued that a minimum wage 'pitched at £3.70, could legitimise low pay … lead[ing] to a driving down of earnings in low paying sectors, so that it soon becomes the 'maximum wage" (1998, p.56). Howarth and Kenway argued, even if the £4.85 adult rate set for October 2004 kept rising by 7%, (which it has only on 3 out 5 upgrades over a five and half year period) it would take 5 years to reach the bottom of the £6-£7 range they considered low paid. Hence, 'as a result, while the NMW has certainly been effective in tackling the most extreme low pay, it has not dealt with the bulk of the low pay in the economy – and on present course, will not do so for some time' (Howarth and Kenway, 2004, p.2). Importantly, even if the NMW was upgraded to a level in the future recognised by the

TUC and the LPU as adequate, (which seems very unlikely through fears of upsetting the business community and costs to the Treasury)[11] there would still be inequalities that need resolving. This is because better-paid workers enjoy greater in-work benefits than low paid workers, for example in access to training, job security and access to an occupational pension (for a full list of benefits see *op. cit.*, pp.28-29). Interestingly, the Government has tried to improve employment rights for low paid workers, particularly in part-time work, but, as the LPU reported, although there is a prohibition against less favourable treatment, employers have a defence if they can 'objectively justify' such treatment' (LPU, 2002, ERAS, Newsbrief, p.6). Thus many low paid workers are still exposed to the whims of their employers.

The final section will examine in more detail the problems facing the low paid.

Problems and issues facing the low paid

We have seen that government policy to alleviate low pay has at best been minimal and has been linked to the economic thinking on the causes of low pay. Clearly, low pay remains an unsolved problem as it has throughout the 20th century. In today's economic climate, there are greater pressures placed on the low paid, as employers and governments reduce their role in protecting workers from risk. Currently, neo-liberal ideology proclaims that employees need to be more flexible[12]. In an ever-changing world, people are expected to continually update their skills and/or improve their education to participate in the modern

[11] see Metcalf 1999, for a full debate on how the NMW was set
[12] see MacGregor 2005, for a full debate on the welfare state and neo-liberalism

workforce. Therefore, the risks and consequences of unemployment are placed firmly on the individual. The state's role is simply to provide education and help with basic skills needed to carry-out the many service jobs that have been created (see table 2.3). Yet for 6 ½ - 7 million workers, regarded as low paid (see Howarth and Kenway, 2004, p.4), the need to be adaptable is tied in with job insecurity and the increased likelihood that they may find themselves in temporary unstructured employment, in which flexibility favours the employer (see Purcell *et al*, 1999, pp.7-10 for further discussion). The type of 'flexibility' they can experience includes: zero-hours contract employment; agency ad hoc temporary employment; casual labour; and part-time variable employment. Significantly, UK employment law has encouraged this behaviour from employers and it is notable how the UK has attempted to delay, play with definitions (for example, the term employee) or opt out of European Union Directives that have aimed to set a minimum standard throughout the European Labour Market. One example of this was the Government's delay concerning the Directive on fixed term work 99/70/EC designed to improve conditions for temporary workers. The LPU's conclusions were 'that the British government's suggested implementation of the Directive would delay its impact so comprehensively, and moreover dilute its provisions to such an extent, that it is questionable whether the implementation of the Directive as they proposed would properly apply at all' (see LPU 2002b, pp.7-10). It is the government's resistance to these changes, as they aim to continue with a neo-liberal agenda, that maintains the inequalities between employer and employee in the UK labour market, which consequently affect the lowest paid in society.

The low paid often have little choice of the type of work they do. For example, the most vulnerable group of low paid workers are women, as previously identified. Currently, one-third are still classified as earning less than 60% of overall median hourly pay, compared to one-fifth of men, whilst 80% are low paid part-time workers (see Howarth and Kenway 2004, p.23). The study identified that for many women caring for children was the main reason for choosing to work part-time and they often regarded this as a positive choice, but part-time work is often low paid (*op. cit.*, p.24). There are exceptions for those in better paid jobs and/or in public sector employment where benefits and options to cut back work to a part-time basis or maternity leave can be taken. Part-time workers are often viewed as casual workers, carrying out marginal work, by many employers. As the Equal Opportunities Commission (EOC) argued, 'those with caring responsibilities, those who take career breaks and those working part-time remained disadvantaged in the workplace in terms of career progression and very little is done in terms of practical assistance. For example, only a quarter of organisations offered additional support to part-time workers' (2004, p.5). The absence of family friendly benefits in many low paid jobs not only disrupts working careers but makes it difficult for women to rejoin the workforce at their previous level. This the EOC regards as an important issue that needs addressing if wage differentials are to be resolved and, therefore reduce the incidence of low pay. 'The clustering of women in low paid part-time work and the associated under-utilization of women's skills are key issues to be tackled if the gender pay gap is to be eliminated' (*ibid.*).

Not only have women had to work part-time owing to family commitments but the reduction of employer and state responsibility, shifting the risk on to the employee, has left many low paid full-time workers without (or with minimal) in-work benefits such as training, expanding the insecurity of part-time work into full-time work. Many low paid workers have no union protections and their employment rights are often flouted by their employers. With the fear of losing a job, this reduces the likelihood of a person questioning any discrepancy. Consequently, groups of disadvantaged workers become trapped in low paid employment. This applies especially to those without the educational qualifications, skills required or experience to move-up to better paid employment. Many studies have shown how working practices have created a vicious cycle of 'low pay and no pay'. For example, employers may deploy zero-hour contracts and are thus able to transfer a large part of the risk attached to demand for their products and services to the employee: if there was no work, employees were not employed (see Purcell *et al*, 1999, p.65).

One study that highlighted the persistence of low pay and the recognition of a 'low pay no pay cycle' was that by Gosling *et al* (1997), which used the BHPS from 1991-1994. Table 2.14, highlighting the findings, identified that 52% of men and 44% of women were still in the bottom quartile and 13% of men and 22% were now out of work. Yet importantly over the period 29% of men and 32% of women had moved out of low pay. Whereas this study recognised that for men persistent low pay was associated with low or poor education, the young, although they may escape low pay after completing a university education or other specialised training, found that job tenure was an important factor in moving out of or being trapped into low pay employment. Men who had been in their last job for 5-10 years were 80% more likely to move out of low pay than those who had spent less than 2 years in their last job (*op. cit.*, p.3). Again this reinforces the social status of women, who, with reduced participation in the labour market because of raising children and looking after family members, are disadvantaged as they have less opportunity to maintain continual employment and are often trapped in low paid employment. This study found that women with low educational qualifications faced an unusually high probability of low pay over their entire working life (*ibid.*).

Table 2.14: Position of low paid in 1994 by quartile in 1991

	Bottom quartile	Second quartile	Top half	Self-employed	Out of work	all
Men	52%	23%	6%	6%	13%	100%
Women	44%	22%	10%	2%	22%	100%

Source: adapted from table 3 in Gosling et al, JRF findings Social Policy Research 122, July 1997.

A further issue is the need to recognise the lifecycle perspective of low pay. Studies have identified that the over 50s are a group vulnerable to low pay, sometimes as a result of redundancy or illness, and as this is nearing retirement, vulnerable to poverty and low pay in retirement. Still this change may be after a relatively long period of high earnings. It is, therefore, possible that someone on low pay may have generated sufficient wealth through their past income to avoid poverty or low pay in retirement, depending on income and benefits they received after a number of years service. This, Bardasi and Jenkins found, is very much dependent on the occupation: 'working fewer than five years between the ages of 50 and 60 raised the chance of having a low income in later life for men who had spent more of their working life in clerical, craft, personal and protective services, and sales occupations' (2002, JRF, April). Interestingly, they showed that retirement on low income or poverty for women with low labour market participation between the ages of 50 and 60 had little association with the risk of having a low income in retirement: this was because the most important determinants were household type and marital status (*ibid.*). As Millar and Gardiner showed, as few as 14% of low paid employees lived in a poor household but to escape from poverty needed support from a partner, family or, in the case of lone parents, tax credits and state benefits (2004, JRF, November). Low pay and its link with poverty is a major concern as insufficient income to live beyond subsistence undermines the opportunity a person has to accumulate wealth by putting money into financial savings, mortgages, and occupational and personal pension schemes (see Rowlingson, 1999, JRF).

This not only prevents many low paid from protecting themselves during sudden economic changes and for their futures but also often exposes them to debt.

Who gets into debt?

Consequently, the resultant 'low pay, no pay' cycle makes the low paid especially vulnerable to debt. Studies on debt[13] have shown that it has many causes. For example, Berthoud and Kempson (1992, p.109) identified the following six causes:

1. Poverty: some people simply do not have enough money to meet their normal commitments.
2. Change in circumstances: a reduction in a person's income or spending needs, for example, redundancy or an illness.
3. Over commitment: people borrowing more than they can repay.
4. Money mismanagement: some people do not know how to manage their money.
5. 'Won't pay': a strong belief by the credit industry that some people have money but deliberately delay or avoid meeting their obligations.
6. Debts promoted by creditors: encouragement by a creditor or a third party that gets people into debt.

Importantly, these causes are conceptually distinct but not mutually exclusive: just as there are poor families that mismanage their money, there are rich families that do so too. But as Berthoud and Kempson state, 'those with more money to play with can usually muddle

[13] Debt as a term usually refers to household arrears or other commitments such as consumer credit (Berthoud and Kempson, 1992, p.112).

through' (*op. cit.*, pp.109-110). This identifies a key point. Although there are many reasons a person can find themselves in debt, it is the low paid who are more prone. As a recent study by Kempson *et al* found, 'those at greatest risk of arrears were young people on low incomes and low-income families with children' (2004, p.2). Further findings in this research identified that the highest incidence of household debt was experienced by lone parents (36%) as opposed to two parent households (17%); by tenants (36%) as compared to mortgagors (15%); and those that had seen a fall in income in the last 12 months (35%), compared with those with no income change (17%) (*op. cit.*, p.19, table 2.8). As previously identified, many low paid fall into the former of these categories as opposed to the latter.

Other studies also identify the link between low pay and debt. Lang's study on individuals with multiple debt problems found that although the highest debts were experienced by the highest earners, demonstrating that debt crosses all earnings levels, the low paid had by far the greatest number of debtors (1988, p.31, table 3.16). Another study by Hanna, which used information from Citizen Advice Bureaux across the country, demonstrated that debt was the result of many interrelating factors but the key problem was a sudden reduction in income, leading to overspending and mounting credit commitments and an unexpected increase in needs (1988, see pp.44-45). Moreover, as the low paid are more likely to experience reduced income as result of the 'low pay, no pay cycle', it emphasises the increased likelihood that the low paid will be affected by debt. This is a view held by Berthoud and Kempson from their research. They suggested that low income led onto hardship then onto credit use (1992, p.63). They further argued that, although the rich used most credit, few problem debts were experienced by those at the top of the income scale. Yet one-tenth of the poorest group had three or more debt problems in the course of a year. 'So although much attention has been paid to the supposed increase in arrears among the middle to high income families, [findings identify] that a much older set of problems remains the primary cause of debt' (*op. cit.*, p.118).

Further studies have identified other circumstances which explain why the low paid are more likely to find themselves in financial difficulty as they are disadvantaged by the many basic transactions in life. Caplovitz in his study examined consumer practices of low-income families in New York City. Examining the various aspects of financial life including buying patterns, shopping patterns, price and credit patterns, he identified that the poor paid more for goods and services. A key finding was that in American society there was the pressure to consume in order to win respect of others and to maintain self-respect. There was a readiness of local merchants and peddlers prepared to take great risks by using unethical and illegal tactics to encourage low income families to buy their goods. However, the terms of credit were higher compared to other outlets. He concluded that 'consumer problems of low income families cannot be divorced from other problems facing them. Until society can find ways of raising their educational level, improving their occupational opportunities, increasing their income and reducing the discrimination against them – in short until poverty itself is eradicated - only limited solutions to their problems can be found' (Caplovitz, 1963, p.192). A study in the UK funded by the National Consumer Council, examined the cost of living for the poor in the UK. In a series of essays this looked at various services and how they generally cost more for poor people. Pond in his work, showed how measuring inflation using the Retail Price Index (RPI) was based on prices that favoured the better-off and included goods little used by the lower paid. For example, during 1970-1975, the cost of living for the poorest 5% of households had increased by 48.6% compared to that registered by the RPI, which was 47.4%. Yet for the richest 5%, their cost of living had only risen by 45.2% in the same period (see 1977, p.220).

Hence, 'an above increase in the incomes [of the lower paid] are required to offset the regressive effects of inflation' (*ibid.*). Further essays addressed the inequalities experienced with housing, education, savings and insurance. But as Williams concluded, there are four main causes of consumer detriment for the low paid:

1. Lack of capital and 'capital equipment' including:
    - Insufficient income or lack of space to buy in bulk
    - Unable to afford economical goods
    - Reliance on credit to buy durables
    - Use of meters that increase household bills

2. Poor access and availability of services including:
    - No car to get to shopping centres where food is cheaper
    - Financial services find low paid people unprofitable so tend to charge more to discourage them using their service
    - Fewer banks in poorer areas
    - Fewer solicitors in poorer areas as many do not tend to handle poorer people's problems

3. Existence of discriminatory rules
    - Fuel industry set a tariff rate that benefit higher users
    - Deliberate bias in the education system

- Town planners follow routes more likely to benefit the better off, for example, placing obnoxious factories and waste disposal facilities near where poorer people live
- Rates of benefits and eligibility rules in welfare benefits penalise the poorest in society

4. Social, cultural and educational characteristics of poor consumers
   - Poor consumer knowledge can prevent the poorest taking advantage of services, for example, health, planning and legal services
   - Lack of information or knowledge of their rights can also affect the poor (see Williams, 1977, pp.235-236 for further debate).

Interestingly, although these findings date back to 1975, most of the problems still remain the same in 2004, reaffirming the persistence of low pay and its link with poverty. Yet what may be new is the increased pressure on the low paid to pay back their debts. Berthoud and Kempson found that landlords and local authorities were more inclined to take active steps to ensure a debt was paid. Tenants with rent debts were threatened more often than mortgage defaulters. They also noted that repossession orders had been on the increase from 60,000 in 1982 to 92,000 in 1990 in council and housing associations. Although orders do not necessarily lead to repossession, they are a stress on the low paid families residing in social housing (Berthoud and Kempson 1992, p.168, table 10.4). Further findings in the study showed summons were most common in poorest households. Debtors were twice as likely to receive a summons as those with incomes that were above average (*op. cit.*, p.171). Moreover, a third had failed to make all the agreed payments on time and the court took further action. This was most commonly possession but on occasions led to prison sentences and restraint orders or fines (*op. cit.*, p.172). Therefore, not only are the low paid more vulnerable to debt and hence poverty, they are more likely to suffer from the consequences of owing money, namely, legal procedures. But added to this are other possible physical effects of poverty like poor health, including poor diet and depression associated with the stress and lack of finances to make ends meet. Long hours worked to pay the bills can also cause problems within households such as family break-up. As Ryan stated, 'debt can result in misery and manifest itself in a range of problems likely to present themselves to social workers, from mental tension and break-up, to physical and emotional ill-health and homelessness' (1996, p.7). Still current neo-liberal ideology regards the individual as responsible for their own outcomes: in a world of insecurities all but the poorest are expected to take charge of their lives and their futures.

However, as this chapter has identified, low pay and its link with poverty is not new and certainly reflecting current policy, does not look any closer to abating. Clearly, low pay and its causes are predominantly the result of structural inequalities. Post-war, the welfare state was used to protect workers in times of unemployment and illness but this was organised around a traditional family unit and left women disadvantaged. It was considered a right based on National Insurance Contributions (NICs) made. During this period, as discussed in chapter 1, risk was shared between the employee, state and the employer. Yet insecurity still existed as many workers experienced low pay and poverty. Significantly, government interventions put in place tended to ignore the roots of low pay, namely, the social inequalities that existed and, hence, they were of minimal success. A change in economic policy to neo-liberalism in the 1980s, was a shift towards supply-side economics and resulted in the deregulation of the labour market. Many jobs in the manufacturing industry disappeared and were replaced by service sector employment. These positions were more precarious and, notably for men, comparatively lower paid. As the findings showed, part of the reduction in wage differential was achieved by the relative lowering of male earnings rather than simply raising women wages. A key idea in neo-liberalism, besides labour market deregulation, was the individualisation of risk. New forms of work practices, requiring individuals to be flexible, exposed many low paid workers to further job insecurities. A decline in unionism during this period left many exposed to the 'low pay, no pay cycle', resulting in many low paid workers with minimal or no protection of their workers rights. Moreover, claiming unemployment from the welfare state was seen as 'scrounging' rather than a right. In 1998 the NMW was introduced to prevent some of the worst effects of a deregulated labour market. But a continued neo-liberal agenda has seen little improvement and the NMW has benefited only 1 million low paid workers, 1½ million less than the trade boards had by the time of their demise in 1993.

So although insecurity is not new, it does seem more widespread, particularly as more people are left exposed to market forces as socialisation of risk has been replaced by individualisation of risk. Many people struggle to make ends meet and become trapped in low pay through no fault of their own. Not only are they in a disadvantaged position but daily life transactions conspire against them, such as services charging more for their custom. Significantly, when in debt they are more likely to be pursued for repayment and find themselves in a court of law. Moreover, debt itself can lead to other problems such as illness and break-up of families. Therefore the evidence presented runs contrary to current government thinking, which supposes that improved attitude and awareness towards saving will improve the chances of those on low pay to prepare for unforeseen circumstances including their futures. For example, it assumed that the low paid do not make the most of the choices and options available to them. Yet the evidence clearly identifies that there is a lack opportunities available to the low paid as a result of structural inequalities and that there is a need to improve their ability to save if those on low pay are going to be able to prepare for their futures.

CHAPTER 3: THE RESEARCH METHODOLOGY AND PROCESS

Introduction

This chapter explains how the research design and methodology used in this thesis were formulated and implemented. First it addresses the research design and methodology, explaining the philosophical underpinning of the thesis, which shaped the key research question and the research aims. I explain the purpose of my research followed with an explanation of and justification for the methodology used. Second it examines the empirical research undertaken reflecting on the experience gained contacting and accessing the low paid.

3(i): The Research design and methodology

The focus of this thesis is on those regarded as 'low paid'. Some have argued that a focus on 'powerless' groups perpetuates their marginalisation (Gusterson, 1995, p.192). I agree with Beresford that 'the exclusion of people with experience of poverty means they have no control over the policy responses which are proposed and developed to deal with them [and that the inclusion of] people with experience of poverty in poverty debates and development will make such debates and developments better informed' (1996, p.51). In my research, the key political issue is that of current pension policy. This whilst aiming to support the lower paid with an improved State Second Pension (S2P), aims to encourage others regarded as low paid by both the Low Pay Unit (LPU) and the Council of Europe to save into private sector, money purchase scheme (MPS) pensions. These neither offer a guaranteed pension to the individual nor are supported by guaranteed employer contributions. The issue, therefore, is not only about how the government defines low pay but its perception of those they do consider to be low paid, seeing them as responsible citizens who should provide for themselves in retirement. This thesis aims to examine the gap between these assumptions in government policy and the real world experience of low paid people. This will be an original contribution as the issues of low pay with reference to pension policy have not been fully addressed. The research described here involved communicating with the low paid to understand how they view their lives in the light of the increased individualisation of risk.

Mason argues that a researcher needs to be able to explain the essence of their enquiry (Mason, 2002, p.13). In order to achieve this, it is important to understand the philosophical underpinning of the research and, hence, it is necessary to explain the ontological and epistemological position taken. This allows the researcher not only to identify their own ontological and epistemological position but recognise that alternative positions exist, 'rather than an obvious universal truth than can be taken for granted' (*op. cit.*, p.14). My ontological position or perspective on the social world is a belief that poverty itself is not solely or primarily the result of how individuals as social actors choose to behave but how society itself is structured and organised and that agency alone is constrained in its opportunities to challenge the structures in place. My epistemological position is that the attitudes and views of social actors are knowable and that this can generate knowledge and evidence that structural limitations, as opposed to individual choices, cause poverty. Taking into consideration these positions I set the following key research question:

What is the potential of current UK pension proposals and policies to provide future security in old age for the low paid?

Emanating from this are my research aims formulated to answer this key research question:

1. To provide an overview of continuities and changes in the ideology behind UK government pension policy since the 1950s.

2. To identify the low paid and analyse their position in the current labour market and the consequences associated with low pay.

3. To examine how recent research, which focused on individuals' pension provision and their approach to saving, has addressed the issue of low pay.

4. To assess the attitudes of the low paid towards saving for retirement and their awareness of the reallocation of risks due to the changing role of the state (which has seen a shift in responsibilities to other bodies, including the individual and their families).

5. To examine the strategies that have been taken by the low paid to save or save for retirement and to assess how far the low paid could provide for themselves in retirement.

6. To assess how current government proposals for pension reform will affect low paid workers and their families.

7. To examine contemporary debates on pension reform in the light of evidence drawn from interviews with low paid people.

To satisfy these research aims and the questions they pose, I chose to carry out a social investigation using the multiple methods approach, which was underpinned by four components: a literature review, a comprehensive review of research reports, semi-structured interviewing and an analysis of contemporary proposals. This was 'a policy and evaluation analysis where analysis is targeted towards providing "answers" about the contexts for social policies and programmes and the effectiveness of their delivery and impact' (Ritchie and Spencer, 1994 cited in Spencer *et al* 2003, p.201). Here the purpose is to challenge current government thinking that seeks to continue the individualisation of risk in pension policy.

The literature review

First I carried out a literature review in order to narrow down and concentrate my research on the areas of change in pension policy that affected the low paid. (This has been reported on in chapter 1 above.) This allowed me to focus on the issues that mattered as opposed to conducting a broad historical analysis of pension policy, which has been carried out previously (see Heclo, 1974). As part of this review, changes in pension policy since the 1950s were examined along with the development and definitions of low pay, identifying who were the low paid and their position in the current labour market. (This was reported on in chapter 2.) This approach was essential in order to gain a good theoretical background knowledge on pension policy and on low pay, emphasising the key debates and issues that have occurred since the development of the welfare state. The literature review contextualised these issues, demonstrating in particular how the movement towards neo-liberalism has seen a change from the socialisation of risk to the individualisation of risk in pension policy. Moreover, in the case of the low paid, we saw how many struggled to make ends meet and become trapped in low pay through no fault of their own but owing to the social barriers and inequalities they face in life. The findings from the literature review justify the approach and methodology I have taken in this research and demonstrate that it contributes original data to the subject area.

The comprehensive review

The second component of the research involved a comprehensive review of relevant reports. The prominence that the issue of low pay and pensions achieved during the time I was carrying out my research resulted in a substantial amount and wide range of secondary material to review and assess.

The reports that were reviewed were empirical pieces of research that used both quantitative and qualitative methods. The quantitative research was supported by the use of substantial databases, namely, the Office of Population and Censuses Survey (OPCS), the Omnibus Survey, the Family and Working Lives Survey (FWLS) and the British Household Panel Survey (BHPS). The qualitative research essentially was underpinned by clearly defined reliable research methodologies. In all cases the reports were informed by high quality primary research (see next section for detail).

Further justification for using these reports is that they best identified the themes relevant to my own research aims as they focused on the individual approach to saving and saving for retirement as opposed to those that concentrated on the household. The reasons for this approach, as explained in chapter 2, are to do with the rise in the value placed on personal autonomy, the increased participation of women in the labour force, changes in marriage patterns and the fact that more people are now living separately than in the past. It is, therefore, important that people are able to survive, if necessary, on their own earnings. The reports covered other relevant issues, namely, attitudes to the different pension schemes in existence and how this affected various social groups. For example, this research examined reports that concentrated on non-state pensions as well as state pensions and focused on different social groups, including ethnicity, gender and working patterns.

In light of chapter 1, it was important that the research reports focused on the recent changes, namely the individualisation of pension provision. The period I chose to cover was 1993-2002. This is because of the impact of 1988 Social Security Act and the problems of privatisation of pensions came to prominence in the early 1990s owing to the 'misselling' of the personal pension (PP) and the Maxwell occupational pensions scandal. The latter year was the cut-off point that I had set myself to design and commence my empirical research. The findings of this comprehensive review underpinned and illuminated my own empirical research.

The identification of the reports was carried out by the use of the internet and the search engines available. This included using keyword search, looking at a combination of terms that, for example, included pensions, low pay, Department of Social Security, government, insecurity, reform, private sector, social research, PP, OPS and many others. In addition to the internet search, journals and books on the appropriate subject area, namely, that of individual savings and/or pensions, were examined to see if they had used recognised reports. Finally, I asked people with knowledge in the area for recommendations on appropriate research that I could draw upon. Studies were omitted if they did not focus on individual savings or used research that was not considered transparent.

The value of carrying out a comprehensive review as opposed to examining reports as single items is that differing reports add their own contribution to the issues surrounding individuals' approaches towards savings and attitudes to the pension system. Whereas one report may focus on a specific section of society or a selected pension scheme, another will address a different group or different schemes, thus providing a broad overview of the variations and similarities that exist amongst society as a whole. The various reports also utilise different methodologies, all of which offer their own strengths. Thus when combined as a body of work these strengths further contribute to the issues being researched from different perspectives. Another important benefit of combining research reports is the opportunity to see if certain factors have changed over time, for example, how confidence in the pension system in 2000 compared to that in 1995, whereas a single study might only capture one point in time.

Some of these research reports were government funded and that this might have an impact on how findings were expressed, namely, researchers might be less inclined to criticise the 'hand that feeds them'. Moreover, it might be expected that research reports commissioned by the government to some degree follow closely the government line, particularly, as in the case of the then DSS where the external researchers worked closely with the department's in-house researchers. The influence of funding is well understood in the research arena and as a consequence it was found in the comprehensive review that risk in the MPS pension schemes was never fully explored in the studies associated with the government, whereas studies independent of government, for example, Rowlingson (2000) and Taylor-Gooby (2001) were critical of government policy that promotes individualisation of risk, especially as to how this affects different sections of society unequally (see chapter 4).

The commissioned reports were predominantly quantitative research and this type of research is favoured by policy makers who often regard qualitative research as less rigorous. The research reports for the government were carried out by reputable researchers and offered a good overview on how individuals perceived pension schemes and approached or viewed saving, but as noted above they have their limitations. The methods in the government funded reports were clearly defined. Their statistical analyses informed my research. With the use of a balanced judgement on the reports, I was able to draw together research reports that formed a comprehensive review on individual savings.

The use of mixed methodology in research

The combination of qualitative and quantitative research methods has been challenged. As Ritchie states, 'there is much debate in social science about whether qualitative and quantitative research approaches should, or even can, be combined. Some writers argue that the approaches are so different in their philosophical and methodological origins that they cannot be effectively blended … [but] others suggest that there can be value in bringing the two types of data together' (2003, p.38). I believe that quantitative data alone cannot tell us enough about how social actors (in this instance the low paid) behave or are affected by structural limitations. It can however, identify the extent to which poverty exists amongst the population. Thus I would support the claim that although 'both the aims and the outputs [of quantitative and qualitative research] are of a quite different nature it is this that can make their combined use so powerful' (*op. cit.*, 2003, p.39). The data explored in the comprehensive review present a good *general* overview on how different sections of society view saving and saving for retirement. From this I was able to draw out issues particularly relevant to the low paid and to identify an area of research that has been inadequately addressed to date, that is the low paid's ability to cope with an increase in the individualisation of risk.

The empirical research – semi-structured interviews

The third component of the research design involved carrying out interviews that is the use of qualitative research methods. Miles and Huberman list a number of positive elements that are a feature of such research. Significantly they state, 'qualitative data, with their emphasis on people's "lived experience," are fundamentally well suited for locating the *meanings* people place on the events, processes, and structures of their lives: their "perceptions, assumptions, prejudices, presuppositions" (van Manen, 1977) and connecting these meanings to the *social world* around them' (1994, p.10)[14]. A key aspect of my research involved qualitative research using semi-structured interviews to identify the attitude, awareness, approach and ability of the low paid to save and save for retirement, with a particular focus on current government reforms to pension policy. This methodology helped in understanding how low paid people behave and reason in adverse circumstances. It identified the limited ability of low paid people to change or adapt because of the structural pressures on them. The use of semi-structured interviews enabled me to interpret the meaning, experience, accounts, actions and events of low paid people and led to the identification of key analytic themes: attitude, awareness, approach and ability.

Issues of generalisation, validity, and reliability in qualitative research

Qualitative research is often viewed as 'soft' and 'unscientific'. Despite the increased use of qualitative research in social science, there is still a preference towards quantitative research in the policy arena. Policy makers often prefer the 'hard' 'scientific' results acquired from quantitative research. Not only is positivism the dominant paradigm but research itself is but a small part of the policy process. As Rist suggests, 'policy making is multidimensional and multifaceted. Research is but one (and often minor at that) among the number of frequently contradictory and competing sources that seek to influence what is an ongoing and constantly evolving process' (2000, p.1002). This partly explains the difficulty that exists in increasing the use of qualitative research in the policy arena despite it having much to offer the policy process (see Finch, 1986, Rist, 2000 and Spencer *et al*, 2003). As Spencer *et al* argue, 'qualitative research can be used in advance of policy development, or implementation, for example, to examine an issue or problem that is poorly understood or to inform the kind of intervention required' (*op. cit.*, p.3).

However, although qualitative research has much to offer the policy process, barriers that limit its use need to be addressed. One such issue is to convince policy makers and

[14] Original emphasis

practitioners that quantitative research has its limitations. As Finch argued, 'this can be done by clearly highlighting the limitations and weaknesses of an over-concentration on quantitative research. … [And explaining that] qualitative research has clear strengths in respect of policy-oriented studies. These include: a concern for process as well as outcome; … the study of social processes in their natural contexts; a capacity to reflect the subjective reality of people being studied, including most importantly those who are the target groups of social policy action' (1986, p.77). Furthermore there is a need to convince policy-makers that qualitative research can be rigorous and robust if its use is to be improved in the policy arena, through attention to issues of generalisability (external validation), reliability and validity (internal validation) of the data and findings.

Qualitative research by its very nature is concerned with relatively small samples and, therefore, statistical claims from the findings cannot be made. It is often criticised for this reason. Consequently, when dealing with small samples it is important to show that the research findings can have wider application. It is important to recognise that there is much questioning amongst qualitative researchers of the extent to which or whether at all qualitative research findings can be generalised owing to the very different epistemological and ontological positions of qualitative and quantitative approaches. However, to have an influence in the policy arena it is important that qualitative research is transferable to other contexts or wider theory. Generalisability, as Finch stated, is perhaps the most obvious weakness of qualitative methods from a policy perspective' (1987, p.228). But Lewis and Ritchie state, 'there is not a clear and agreed set of ground rules for the conditions under which qualitative research findings can be generalised or what the process involves' (2003, pp.284-285). Significantly, they identified three linked but separate concepts through which qualitative research could be generalised:

1. Representational generalisation: whether what is found in a research sample can be generalised to, or held to be equally true of, a parent population from which the sample is drawn;

2. Inferential generalisation: whether the findings from a particular study can be generalised, or inferred, to their settings or context beyond the sampled one and

3. Theoretical generalisation: whether theoretical propositions, principles or statements can be drawn from the findings of a study for wider application (*op. cit.*, 2003, p.285).

However, before any generalisations can be made, the data need to be checked for both reliability and validity. 'Reliability is generally understood to concern the replicability of research findings and whether or not they would be repeated if another study, using the same or similar methods, was undertaken. ... Validity is traditionally understood to refer to the correctness or precision of a research reading ... the extent to which the phenomen[on] under study is being accurately reflected, as perceived by the study population' (*ibid.*). In the case of the former, Seale argues that good practice in relation to reliability and replication can be achieved through an aspect of reflexivity: 'showing the audience of research studies as much as possible of the procedures that have led to a particular set of conclusions' (Seale, 1999, p.158). Chapter 3 explains how I planned the empirical research: how I selected the sample of the low paid; the questionnaire design; how I accessed and contacted respondents; and the approach I used for the research analysis.

The analysis of contemporary proposals

The fourth component of the research design was to carry out an analysis of contemporary debates on pensions. This was included because of an important shift in the current pensions debate, which occurred after the publication of the government's Green Paper: *Simplicity, security and choice: Working and saving for pensions* (DWP, 2002). Prior to this, the pensions debate had centred on increasing the private sector's role in pension provision, a continuation of the individualisation of risk. The emphasis has been on individuals' responsibility to provide for themselves in retirement via private sector pensions. However, there is an increasing acceptance from those who favour private sector pension provision that there has been a failure of the private sector to fill the role vacated by the state. This situation is often now described as the pensions 'crisis'. This has been followed by a number of proposals from different political quarters which argue that current policy will fail the low to middle income earners if left unchanged. It would be impossible to discuss all of the pension proposal literature deriving from these sources over recent years, thus those discussed have been selected on the basis that they represent a range of policy stand points across the political spectrum.

As with the comprehensive review, selection criteria of the proposals included making use of the internet search engines, to identify the current debates, and proposals resulting from the number of seminars I attended.

The methodology used in this analysis of contemporary debates examined current pension proposals by using the 'pensions triangle': this examines the adequacy, the cost and incentives put forward in the proposals. (More detail of this is provided in chapter 7). I divided each of these three themes into sub-areas so that comparisons across the proposals could be made. The purpose was to examine the extent to which they address the issues raised by my qualitative study on the low paid.

In summary the research design consisted of four components, the aim of which was to examine the potential of current UK pension policy to provide sufficient income in retirement for the low paid to prevent them retiring in poverty. The research design used was iterative as from the commencement of this thesis, the issue of pensions rose on the political and policy agenda, leading to a significant number of reports and proposals. The design used here was able to respond to the changing context.

This was an investigative piece of research. Firstly, underpinned by the literature review, from a critical examination of both pension policy and issues surrounding low pay, it was possible to identify the change from socialisation of risk to individualisation of risk in pension policy and that low pay remains a prevalent issue today. Second, the comprehensive review pulled together research reports that identified various individuals' approaches to savings and savings towards retirement. These research reports helped gauge insight into the attitudes that exist towards the various pension schemes in existence. Although these reports covered some issues that impact on the low paid, many gaps remained. However, the findings were used to underpin the third component, the empirical research. The semi-structured interviews were used to analyse attitude, awareness, approach and ability of the low paid and assess the extent to which government policy understood those who live on low pay, examining their real life experiences. Finally, in response to the changing context of the pensions debate, this research examined contemporary proposals and their likely potential to redress the poverty many on low pay suffer in retirement.

The research used here embraced a multi-methods approach, and as discussed above, this was supported by previous research on individuals that used large reputable social science databases. Much of this research was quantitative and surveyed a large number of respondents, whereas my own empirical work used a qualitative research methodology. Significantly, these methodologies result from different ontological outlooks: quantitative concerned with how many, and what? Whereas qualitative is concerned with how and why things happen (see Miles and Huberman, 1994, p.10). However, as argued above the multi-method approach is a powerful tool in social science research.

The next section will now examine my empirical research including how I identified the low paid; designed the questionnaire and how I contacted my respondents concluding with a reflection on the research experience.

3(ii): An examination of the empirical research – identifying, contacting and interviewing the low paid

Defining low pay and sample selection

The first requirement was to define low pay and identify the low paid. There are many definitions of low pay. As my ESRC award (prior to February 2002) was in collaboration with the Low Pay Unit (LPU), I decided to use their definition (for a full discussion on definition see chapter 2). This definition uses 60% of male median earnings, (see table 3.1) as a threshold. The next stage was to identify, with the use of the Labour Market New Earnings Survey (April 2002), employment that fell below £280.00 per week, excluding overtime, for both men and women. A list was then produced with the employment reclassified using the New Earnings Survey industrial classifications, resulting in the identification of industrial sectors most likely to have low paid workers.

Table 3.1: Definitions of low pay

Definitions of Low Pay:	APRIL 2001	APRIL 2002
Council of Europe *(68% of mean earnings)*	**£15,707 p.a.** *(£444.20 p.w.)*	**£16,431 p.a.** *(£464.70 p.w.)*
Low Pay Unit *(60% of male median earnings)**	**£14,119 p.a.** **£271.52 p.w.** **£7.16 p.h.** *(£407.30 p.w.)*	**£14,560 p.a.** **£280.00 p.w.** **£7.41 p.h.** *(£420.00 p.w.)*
The Government's measure of poverty *(60% of median earnings).*	**£11,544 p.a.** **£222.00 p.w.** **£5.85 p.h.** *(£370.00 p.w.)*	**£11,962 p.a.** **£230.04 p.w.** **£6.08 p.h.** *(£383.40 p.w)*
A measure of poverty *(50% of male median earnings)*	**£10,589 p.a.** **£203.63 p.w.** **£5.37 p.h.** *(£407.30 p.w.)*	**£10,920 p.a.** **£210.00 p.w.** **£5.55 p.h.** *(£420.00 p.w.)*

*Source: * This was calculated using the LPU's definition of low pay and data from the New Earnings Survey (NES). National average hours worked per week for April 2001 was 37.9 (NES, 2001, table A21.1), for April 2002, 37.8 hours per week (NES, 2002, table A21.1). Median earnings were taken from NES 2002 (table A28.1). The Government's definition of poverty is explained in Sutherland et al 2003 (Box 1), whilst the poverty line definition is shown in the LPU's New Review.*

For practical reasons, my focus was the North London area. In order to represent the area's population the following independent controls were devised (see table 3.2). These were based on regional data (Census, 2001) which showed that in the 39-49 age group, London had 51% women - 49% men; a 29% ethnic minority population; and that in the UK 23% (8% male, 43% female (Women and Equality Unit, 2002, p.46, table 3.11)) of the workforce worked part-time (see table 3.2).

Table 3.2: Independent controls used for the intended sample

Age	No(s)	Gender	No(s)	Ethnicity	No(s)	Work Status	No(s)
30 - 39	20	Male	20	White	28	Full-time	30
40 - 50	20	Female	20	Non-white	12	Part-time	10
Total	40		40		40		40

In order to control for sample bias, I used the following interrelated controls (see table 3.3). The purpose was to check that respondents are not over or under represented within significant variables. These I chose as gender and work status. Owing to the sample size, I felt these to be the most important variables for the interrelated controls concerning employment patterns.

Table 3.3: Interrelated controls used for the intended sample

Gender	Male	Female	Male	Female	
Work Status	Full-time	Full-time	Part-time	Part-time	
Age					
30-39	9	6	1	4	20
40-50	9	6	1	4	20
Total	18	12	2	8	40

As tables 3.2 and 3.3 indicate there was an age limit for my respondents: 30 to 50. This selection resulted from the reviews of findings of previous research studies which indicated that people below the age of 30 tend not to give a lot of thought to retirement income, while for those above 50, starting a new private pension scheme would be of little benefit as there would be little time on which to build up sufficient contributions before retirement.

The earnings limit I set for my respondents was between £5.50 and £7.40 per hour. This was based on Labour's new pension proposals that introduced the S2P for low paid workers earning under £10,800 per annum, the lower earnings threshold (see The Local Government Pensions Committee, 2002, April), making them better off than if the State Earnings Related Pensions Scheme (SERPS) had been retained. It is Labour's intention to encourage those earning above £10,800 per annum (but still classified as low paid by the LPU) to take out a Stakeholder Pension (SHP). Therefore, the upper hourly rate was set at the LPU's definition of low paid earnings less than £14,560 per annum (see table 3.1 for breakdown). Key here was to create a sample selection that could identify issues that not only concern the low paid in the London area but could also be generalised to the low paid elsewhere in UK. For example, earnings may be highest in the London area compared to the rest of the UK but pension policy is universally applied: the pension level is not higher to compensate for the higher cost of living in the capital. However, I am aware of the limits of the generalisability of such findings, and of qualitative research *per se*, as discussed on pages 88-89 but would argue that with the above sample transferability is to a certain extent feasible.

Questionnaire design

The questionnaire design centred on my key research question, namely the potential of current pension proposals to provide security in old age for the low paid. The literature review had revealed that the continued individualisation of risk that the New Labour government is pursuing may be a risk beyond the means of the low paid. Yet the New Labour government believes that the state's role should be reduced for all but the poorest in society: the rest should take responsibility to provide for themselves. However, Labour may have underestimated the real level of poverty (see table 3.1), particularly, when this is transferred into retirement income.

My qualitative research aimed to fill some of the gaps in previous research studies. It focused on the low paid and it analysed their attitudes, awareness, ability and approaches to saving and saving for retirement. It also asked whether, if findings indicate that the state needs to spend more on pension provision, how would the low paid like to see this develop?

Should it be an earnings related scheme, or a much higher flat rate basic state pension, or as it is now a mixture of both? Alternatively, would they prefer the state to act more as a regulator of pension policy? Unlike previous research on individual pensions policy, my study aimed to identify the issues that matter to the low paid. By using semi-structured interviews it would be possible to identify how a low paid person's life developed over time and identify their concerns and their views of the future. The interviews aimed to identify the heterogeneity of the low paid as well as their commonalities, illustrating the complexity of the impact of low pay.

The questionnaire was divided into three sections as follows:

Present circumstances

1. To identify background details of the low paid person being interviewed.
2. To identify their attitudes towards saving and to what extent this is associated with retirement.
3. To identify awareness of current schemes: how the respondent believes they operate and what they feel about them.
4. To examine alternative saving approaches for retirement.
5. To examine the ability a respondent has to save for retirement.

Past Circumstances

1. To identify previous employment.
2. To identify if a person has undertaken further education to improve employment opportunities.

3. To identify past experiences that may have influenced the respondent's chosen career path.
4. To identify any previous pension policy or savings that the respondent does not have now.
5. To identify how financially secure the respondent felt in the past.

Future aims and hopes

1. To discuss with respondents their expectations for retirement.
2. To discuss plans that the respondent has for retirement.
3. To identify if the respondent is aware of the current rate of the Basic State Pension.
4. To identify if the respondent believes that they would have saved enough for retirement.
5. To identify who the low paid consider responsible to pay for retirement.
6. To identify the respondent's opinion on the introduction of the Minimum Income Guarantee, or means testing *per se*.
7. To discuss with the respondent if they would consider deferment of retirement based on a new government proposal.

Interview strategy

Once I had identified my target group and designed the questionnaire (see appendix), it was important that I had an interview strategy in place. This not only meant keeping to the independent and interrelated controls as shown in tables 3.2 & 3.3 but importantly that I should use an approach that would avoid bias. The methodology I used was 'snowballing', which was achieved by asking my respondent at the end of the interview if they knew of anyone else who would be a willing participant. One common criticism of this approach is that too many contacts from one source could create bias in the findings. Therefore, I made sure that no one passed on more than two participants. Each interview was logged separately with date and time of interview and contact details, as a summary of findings after completion of the research would be passed on to the respondent. Interviews were to last 45 minutes: after this if the questionnaire had not been completed the respondent was asked if they wanted to continue the interview. In all cases they agreed to do so. The questionnaire had been piloted using four interviews, not only allowing me an opportunity to gauge the time an average interview would take but also to make further changes to the phrasing of certain questions. Pension policy is very complicated, and therefore, it was necessary to rephrase questions that were directly associated with policy itself.

Ethical considerations

There is need to recognise that research is intrusive and therefore there is a need to avoid undue intrusion. First it is important to make sure that the research is necessary, namely, that it has not been carried out before. This research had already examined the literature and documents in the area of low pay and pensions and identified a gap in previous research, which required interviewing the low paid. But as stated by the Social Research Association (SRA) 'people may be inconvenienced or aggrieved by enquiry in a variety of ways, many of which are difficult to avoid or to anticipate although the researcher would be behaving responsibly by the subsequent seeking of informed consent for participation of research' (2003, p.26). In order for any interview to take place all respondents were asked to read and sign an informed consent form. This informed the respondents of their legal rights and they were made aware of their entitlement to refuse to answer any question or withdraw from the interview at any time. They were also told that the information would be confidential and no names would be used when writing-up the research. All interviews were taped and copies made to any respondent who requested them. All tapes were to be kept away safely, so that I am the only person that has access to them and, therefore I maintained the strictest confidence with my respondents as agreed on the informed consent sheet.

Another ethical issue included the use of the term 'low paid'. As stated earlier, this term itself is blurred with the government's interpretation significantly different from that of the LPU's and the Council of Europe's definitions. More importantly, I was aware that the term 'low paid' might offend a respondent. Therefore, this term was excluded to avoid harm: the respondents were simply asked if they fitted in the age and wage bracket I required.

Contacting and accessing the respondents

After the piloting had been carried out, I had to devise a way to contact potential respondents. As they would be working, I decided that I would contact appropriate employers as my first point of access, namely, employers in industries regarded as low paid as previously identified. This had to be achieved with the minimum of fuss as most managers have little time for researchers, and may believe that you are trying to sell them 'something', or, simply suspicious of your motives, they could be protecting their own interests. Therefore, my approach was to use a covering letter explaining who I was and the purpose of my research, and stating that both the employer and employee data would be treated confidentially in any written material (see appendix). Moreover, interviews would take place in the respondent's own time. To minimise the effort required from the employer I designed what I thought was a catchy leaflet (see appendix) to pass around to the appropriate staff or simply put up on the staff notice boards. In order to cover expenses, I intended to offer a £10 payment to each respondent for their time. Here I was concerned with the issue that I was relying on low paid workers and wanted to make sure they were compensated for 45 minutes of their time. This I checked through a number of sources, including my funding body (the Economic and Social Research Council (ESRC)) for ethical approval and a former Vice Chair of the SRA. In some research areas, this approach (offering a small payment) is becoming common practice as was suggested by a representative at BMRB International.

The focus of this research targeted the local catchment area for practical and logistical reasons, namely I do not own a car and have to rely on public transport to gain access to my respondents. Moreover, Middlesex University has strong ties with the local area and I hoped to gain from this prescience.

In order to find a sufficient number of respondents from the different industrial sectors it was necessary to use various contacts. Initially, this included a UNISON representative for the Enfield Local Authority, the Business Area Manager of the Brimsdown Business Association, the UNISON representative for Middlesex University as well as the Enfield Chamber of Commerce. Other contacts would be directly with employers; for example, here at Middlesex University I contacted the appropriate line managers, such as, the facilities managers at the various campuses for permission to access the caretakers and security workers and the Area Manager of the catering company to access the catering staff. Further contact was made with a number of organisations that included care and nursing home managers, store managers at retail outlets, management of hotels and restaurants and principals at local schools. Other contacts included community groups and local organisations. By using such contacts as gatekeepers I felt it would be easier to contact the appropriate respondents as employers would have knowledge on their employees' earnings and could pass on a leaflet to any appropriate participant or put a notice up in the staffroom, which would not be too intrusive. Any person interested could then contact me and arrange an interview at a place of their convenience, for example, the university has rooms ideal for an interview or this could be at a client's home address. In the case of the latter and in accordance with health and safety concerns, I would let a colleague know of my whereabouts and time of interview. They would call me if I had not contacted them an hour after the interview. If I did not respond they would contact a named person at the university to inform them of the situation.

Data analysis and interpretation

All the interviews were to be taped, after which these would be transcribed with minimal editing. For each interview, every exchange would be numbered. After this was completed, the transcripts would be reread with the aim of identifying themes and sub-themes under the headings: attitude (opinion); awareness (knowledge); approaches (strategies) and ability (opportunity). These themes underpin my questionnaire and were identified from the analysis of previous research studies. After the themes and sub-themes had been identified and coded, they were grouped together under each separate sub-theme. This was achieved by creating a table around my transcripts and then numerically sorting the table. Initially, the aim was to organise the findings around each theme; although this method is useful for identifying the important issues within each sub-theme, it is difficult to read across to other sub-themes that may have relevant information. Moreover, this method makes it difficult to identify important information such as the gender and age of the respondent to whom the exchange is attached. For this reason I chose to use the matrix based analytical method known as 'Framework' as recommended by Ritchie *et al* (2003, pp.219-262). This is a manual method that uses A3 sheets of paper on which each main theme is charted in its own matrix where every respondent is allocated a row and each column denotes a sub-theme. This allows the data to be easily read both across the sub-themes and the respondents (see Ritchie *et al* , 2003, for full description). Significantly, under each sub-theme are pared down statements or quotes by the respective interviewee. This, therefore, involves 'summarising or synthesising the original data [not only making the data more manageable but makes sure that the researcher] inspects every word of the original material to consider its meaning and relevance to the subject under enquiry' (Ritchie *et al*, 2003, p.229). Importantly, as all the information is coded the researcher is, if and when they need to, able to refer back to the original quote.

The significance of this analytical method is it allows research to be carried out in a methodical way. The first stage involves data management: sorting and labelling data by concept and theme; summarising data and detecting patterns. Second, is the building of descriptive accounts: identifying and establishing categories; classifying data and detecting patterns in the data. Finally the explanatory accounts are developed: developing explanations and seeking application to wider theory and/or policy strategy. The importance of this analytical hierarchy, as fully explained by Spencer *et al*, is that it is not simply a linear process and can be described as a ladder that allows the researcher to move up and down the structure (2003, pp.212-213). As with my analysis, this enabled me to constantly check and make comparisons across different sub-themes and respondents.

Moreover, I also considered deviant cases within sub-themes, using these as an important aspect of my research rather than ignoring them or considering them simply as outliers. These are considered as important methods of internal validation that underpin the explanatory accounts (see Lewis and Ritchie, 2003, p.275). To support the findings of explanatory accounts, namely, to give it wider application, I used other empirical studies and literature.

Reflection on the research experience

My research experience was not as positive as I had hoped. Although from the outset, I believed that participation from employers would be both difficult and limited, I was still surprised by the poor response from the employees themselves, this even after company managers had been helpful in displaying my leaflet. Importantly, the first responses I received from employers were positive and most seemed more than willing to put up the leaflets, although on calling back some had had not done this. But with most of the organisations I contacted, this was as much help as I could hope for, and if their employees were not going to call back, no further progress could be made. Unfortunately, there were no responses from these employees; so I had to reconsider the approach I had taken. I had underestimated the number of leaflets that I would need to send to gain enough responses, especially as a research colleague had said that I should be working on a 5% response rate. My next aim, therefore, was to distribute leaflets *en masse* to organisations and companies, using a business directory of the Brimsdown Business Association, which I received from the Brimsdown Business Area Manager. Then using a number of leaflets and covering letters, I decided to visit these companies face to face. However, the first problem I noticed was that on an industrial estate visitors were not particularly welcome (perhaps the companies had been inundated by sales representatives). More daunting was the distance between the companies and that every place seemed to be protected by high security.

In the first instance, I had managed to meet a company representative of a smaller firm who seemed very helpful and interested. She said that my information would be forwarded to the manager and that the information would go out to the appropriate staff. Similar results followed but on a couple of occasions, security became too inconvenient even for the simple task of delivering a letter and a few leaflets. On two occasions, I had to buzz reception, which was on the first floor. They simply let me in and I was told to leave 'whatever it was' on the table downstairs: although I did so, I was not convinced that this would go to the appropriate staff. On another occasion, a security box at the end of a road meant that I had to call security to gain access. I was allowed to pass with little fuss but on exit I had to get out of the car and ask someone if they had a swipe card for the machine. This exercise indicated to me that not only was this a time consuming process but I was no better off trying the personal touch in these circumstances. It seemed it would be just as convenient to send covering letters to the managing directors because only on two out of twenty occasions did I manage to meet the appropriate member of staff.

Therefore, using the business directory, I decided to send out covering letters and leaflets to these organisations. As I did not have the managers' names, and to phone each company would take too much time, I sent out standardised letters, addressed to either the Managing Director, Staff Manager or Personnel Manager depending on company size. This information was included in the business directory. This again resulted in no response. Follow up calls to the companies emphasised the barriers I faced with employers from the manufacturing and wholesale sector. For example, many companies simply said that they had not received my letter, despite having the right address. This suggested that they could have been lost or even thrown away. Other companies said that they had sent the letter on to their head office. Although this may have been the case, when calling the head offices nobody was aware of any such letters. One company politely wrote to me regarding my research. This company was going through a change of company provider and could not participate for the foreseeable future but the response was appreciated. More recently, another company had sent me an e-mail but still no respondents were coming forward. Further barriers included constantly engaged telephones, unreturned messages left on answer phones or being told that the manager is in a meeting and will call you back but never returning my call. Therefore, I had a general feeling that most companies were not interested: only a few had offered to put up my leaflets. Yet without offering anything that would specifically benefit the company, such barriers should perhaps have been expected.

It could have been argued that these companies might have been short staffed, as it was during the summer period that the research was undertaken. Although I would agree that this could have had a bearing, the lack of interest in many companies implied other reasons. For example, in the case of a supermarket in Ponders End, who had finally responded after having sent two letters (the first was lost), they were not happy with the political implication of my letter. The store manager suggested that the comment 'to examine the suitability of Labour's pension policy' in my letter singled out one party and they could not be seen as part of this: they wanted to remain apolitical. Although I could accept their comment, I felt that the anonymity and confidentiality offered would have insured that no political views would have implicated the company. Moreover, my thesis is not just a focus on Labour's pension policy but as the current party in power to examine their policy alongside previous changes. In this case, the problem could have been avoided by simply using 'current government policy' and I have to accept this was a mistake. (However, they had been the only company to mention this issue directly to me.)

As manufacturing, wholesale and retail industrial sectors were not generating much interest, I thought it necessary to try the other industrial sectors that were part of my research. I found that managers from the health and care, hotel and catering sectors much more interested in my research and generally more congenial. When contacting the hotels and care homes, I was often able to speak to the manager. However, in the case of the hotels, most of their staff were below my stated earnings level and often were younger than the 35 years I had originally set as the minimum age. The care homes had a similar problem, again paying around the national minimum wage. But on two occasions, a home manager said that they had staff within my criteria: however both declined to be interviewed. This was a major concern as I had tried to make it clear that my questioning would follow all the ethical guidelines, and thought that £10 to cover expenses would at least take away any disincentives. Although I appreciate that the interview process can be intimidating for some, the overall apathy was a worry. One gatekeeper said 'people don't want to be reminded that they are going to get a useless pension'. Although I understood this person's view, I did not feel that my interviews were depressing and those that had been interviewed had not minded at all. Therefore, it was important that I advertised this point and that this would not be achieved by the leaflets alone. Therefore, I believed that a face to face approach direct with respondents would be needed.

Consequently, at this point I checked back on previous research studies and found that 30 was actually the cut off level at which adults started to consider taking out a pension. This gave me another five years leeway. At this point I decided to contact people face to face with the permission granted to me by relevant managers. This yielded a 'mixed bag' of results. Some managers were helpful, while many were not, and on one occasion an assistant manager told me that she did not want students in her store. This is despite the fact I made it clear that I was not going to interview them during work hours. To some extent I expected rejection because it was a more forward approach and one I hoped to avoid but at the same time previous efforts were not yielding results. However, this reaction was a little bit upsetting as I realised how little some people cared about what I was doing (even though I believe it is socially useful) and the suspicion some people held towards researchers. Still I had to accept that this was normal and in the meantime a manager from a care home found a willing member of staff. Then within a few days I managed to interview two more respondents and for a change prospects were looking good. Yet within a three month period I still only managed to get 20 respondents and now realised the process was taking far longer than expected. This was despite many people helping and acting as gatekeepers, in one instance a Greek-Cypriot group sent out a flyer in their magazine to over 400 people but only one person responded. Another person who worked with low paid workers recently made unemployed believed that she would manage to get quite a few respondents. I had passed onto her leaflets and hoped this would produce results. This person was a home visitor and had plenty of contact with people but said later that no one was interested. Admittedly, I knew some people would be anxious or would not want to be interviewed on financial issues and this is why I made it clear that it would not be an intrusive interview. But I was still surprised by the extent of the negative response.

This led to a critical point in my research as the 40 respondents looked an unrealistic target. After agreement with my supervisors 30 became a revised target. Thus I set new targets and altered the independent and interrelated controls accordingly (see tables 3.4 and 3.5). Now, my main concern was whether the sample size would be sufficient. But in qualitative research, sample size is not overly concerned with the total number interviewed as it is not designed to attain statistical inference. Rather the key is that the sample has reached a point of diminishing returns or saturation point: 'where increasing the sample size no longer contributes towards new evidence' (Ritchie *et al*, 2003, p.83). This I believed started to occur after 25 interviews. Due to time constraints and continued difficulty in accessing respondents, particularly those in full–time work, meant that I finally had to end the interviews with a total of 28. This to a slight extent skewed my intended sample; the following tables show my actual sample in brackets.

Table 3.4: Independent controls used for the actual sample

Age	*No(s)*	Gender	*No(s)*	*Ethnicity*	*No(s)*	*Work Status*	*No(s)*
30 - 39	15(15)	Male	15(15)	White	21(21)	Full-time	22(20)
40 - 50	15(13)	Female	15(13)	Non-white	9(7)	Part-time	8(8)
Total	30(28)		30(28)		30(28)		30(28)

Table 3.5: Interrelated controls used for the actual sample

Gender	Male	Female	Male	Female	
Work Status	Full-time	Full- time	Part-time	Part-time	
Age					
30-39	6-7(5)	4-5(4)	1(2)	3(4)	14-16 (15)
40-50	6-7(8)	4-5(3)	1(0)	3(2)	14-16 (13)
Total	13(13)	9(7)	2(2)	6(6)	30(28)

I still believe that this sample was sufficient to achieve my objective, which was to examine the attitude, awareness, approaches and ability of the low paid towards saving and saving for retirement. Table 3.6 is a breakdown of the 28 respondents: all names used are made up to protect the respondents' anonymity. The interviews highlighted life stories of the respondents so a person now working part-time might have recently been in full-time employment. Or a person currently working in one industry might have previously worked in other sectors. In this way, the interviews were rich in detail and, although the sample was smaller than anticipated, the findings were sufficient to draw out key issues. These were supported by previous research and literature with the intention to give the findings wider application as recommended by Lewis and Ritchie (2003, pp.285).

Table 3.6: A breakdown of the 28 respondents interviewed for the research

Name	Age		Gender		Ethnicity		Full-time	Part-time	Industry	Job Description
	30-39	40-50	F	M	W	NW				
Valerie	√		√			√	√		PPS	Language Centre Assistant
Frank		√		√	√		√		PPS	Caretaker
Marius		√		√	√		√		PPS	Caretaker
Lorena	√		√		√		√		HC	Catering Assistant
Floella		√	√		√		√		HSW	Carer
David		√		√	√		√		HSW	Carer
Geoff	√			√	√		√		T	Driver
Beverley	√		√		√		√		HC	Catering Assistant
Syed	√			√	√			√	C	Landscape Gardener
Maxwell		√		√	√		√		E	Learning Support Assistant
Vito	√			√		√		√	E	Learning Mentor
Glen	√			√	√		√		E	Computer Assistant
Sheryl	√		√			√		√	PPS	Trainee Community Worker
Deborah	√		√			√		√	PPS	Cleaner
Robert		√		√	√		√		PPS	Caretaker
Gary		√		√	√		√		PPS	Enquiry Officer
Mark		√		√	√		√		RW	Assistant Retail Manager
Rosa	√		√		√			√	FS	Telesales
Marilyn	√		√			√		√	E	Teaching Assistant
John	√			√	√		√		HSW	Nursing Assistant
Anthony		√		√		√	√		PPS	Security Officer
Katie		√	√			√		√	E	ICT Help Desk Assistant
Yvonne		√	√		√			√	E	Library Shelver
Eileen		√	√		√		√		RW	Bookshop Assistant Manager
Julius	√			√	√		√		PPS	Computer Assistant
Anne		√	√		√		√		RW	Bookseller
James	√			√	√		√		RW	Estate Agent Negotiator
Emma	√		√		√		√		PPS/RW	Warehouse Operative and Cleaner
Tot.	15	13	13	15	21	7	20	8		
Act %	52	48	44	56	74	26	70%	30%		
Aim %	50	50	50	50	71	29	75	25		

CHAPTER 4: A COMPREHENSIVE REVIEW OF RELEVANT REPORTS ON PENSIONS AND SAVING

The widely held perception that there is a pensions 'crisis' has generated considerable research. Chapter 1 examined the change in political ideology that shifted collective pension provision towards individualised forms potentially increasing the risk experienced by the individual. This chapter will concentrate on studies that focus on the pension provision of individuals and their attitude and approach to saving (see tables 4.8 and 4.9). These studies researched a range of people. For example, four studies focused on a specific group: women (Field and Prior, 1996); ethnic minorities (Nesbitt and Neary, 2001) and the self-employed (Knight and McKay, 2000; Thomas *et al*, 1999). The other studies researched different samples of the population. For example, the study by Taylor-Gooby (2001) used the British Household Panel Survey (BHPS) which interviewed 10,000 adults in 1991, with follow up interviews annually where possible; this was representative of the population of England, Scotland and Wales living in private households. Whereas the research carried out by Knight and McKay (2000) and Walker *et al* (1999) used the Family and Working Lives Survey (FWLS), a nationally representative survey of over 9,000 respondents aged between 16-69 conducted in 1994 and 1995. In addition, two studies focused on specific forms of pension provision: The Goode Report (1993) considered the occupational pensions scheme (OPS), whilst Hawkes and Garman (1995) focussed on non-state pensions, namely the OPS and the Personal Pension (PP).

The chapter is divided into four parts. The first part will examine the methodologies used in the reports received. The second part will examine research on individuals' awareness (knowledge) and attitudes (opinions) towards current pension schemes. The third part will examine the research on approach (strategy) and ability (opportunity) of individuals to saving for retirement. In both cases there will be a discussion of the research aims, research questions/foci and findings. The final section will be an examination of the key themes discussed and their relevance for the low paid. This section will conclude with a statement of the research focus for the thesis.

The timescale which was chosen for the selection of research reports was 1993-2002. 1993 was justified as the starting point on the grounds that the 1988 Social Security Act was beginning to take effect and that it was important that these research reports accounted for the changes to individualisation of risk (as explained in chapter 1). For example, the incidences of 'misselling' of the PP became prominent at this time. 2002 was chosen as the final year of the research reports because this comprehensive review was to underpin the empirical research for the thesis which was to be undertaken in 2003. (For further details on how these reports were identified see chapter 3.)

Methodologies used in reports received

The Goode Report

This study used both quantitative and qualitative methods. Firstly, three surveys were carried out on the public's perceptions and experiences of occupational pensions. A module of questions was put to a representative sample of the UK's adult population (see table 4.1) as part of the Office of Population and Censuses Surveys (OPCS) in November 1992, December 1992 and January 1993. Secondly, 50 follow-up interviews selected from the sample comprised individuals who showed concern with their OPS and employees eligible to join an OPS but not current members (table 4.2).

The survey covered 6,123 persons of which the general breakdown of the sample was as follows:

Table 4.1: The sample breakdown used in Goode's quantitative research

Gender	Employment Status	Social Class
Men - 48%	Currently employed - 48%	I – Professional - 4%
Women - 52%	Retired - 25%	II – Intermediate - 24%
	Employees 2+ years with current employer – 75%	III – Skilled non-manual – 24%
Age		III – Skilled manual – 22%
<35 – 33%	Employees 10+ years with current employer – 32%	IV - Semi-skilled manual – 18%
35-64 – 47%		V – Unskilled manual – 7%
>65 – 20%	Employees < 2 years with current employer – 25%	

Source: Table adapted from table C1 The Goode Report, 1993, p.77.

The 50 individuals followed up in the interviews were as follows:

Table 4.2: The sample breakdown used in Goode's qualitative research

Gender	Employment Status	Social Class
Men - 64%	Full time employed – 70%	I & II – Professional and Intermediate - 20%
Women - 36%	Part time employed – 12%	
Age	Working age but not in employment – 4%	III – Skilled non-manual – 46%
<40– 36%		III – Skilled manual – 22%
40-60 – 54%	Pensioner – 14%	IV & V - Semi-skilled manual and Unskilled manual – 12%
>60 – 10%		

Source: Table adapted from figure 2.0, op. cit., p.117.

This study, therefore, used a mixed methodology: quantitative research supported by in-depth qualitative interviewing. This is a particularly useful methodology as it is possible to incorporate statistical analyses via a large number of respondents whilst observing more detailed personal opinion and feelings. As table 4.1 shows, the survey was of a representative cross-section of the population, with the key social category used throughout the study being social class. This enabled the research to identify the different attitudes and experiences with OPS of all classes of society. The qualitative study, however, only aimed to examine the opinions of those who were either potential members, or members, of an OPS. Table 4.2 indicates the level of exclusion experienced by women, part-time workers, and skilled manual workers. This is because the follow up interviews identified an under representation of these groups in an OPS.

Perceptions of non-state pensions

This study carried out by Hawkes and Garman used an OPCS survey of February 1995, which contained some 50 questions concerning pensions (Hawkes and Garman, 1995, p.1). The research was based on interviews with 1,989 respondents and had a 75% response rate. In this study, no figures on gender and social class are given but the report stated that it is assumed that the OPCS survey provides general background and classificatory data on gender, age, marital status and social class (*op. cit.*, p.2). An overview of the respondents showed that 21% were retired with 4% over the retirement age; 41% had some type of non-state pension and 21% were without a non-state pension; 5% were self-employed with a PP, whereas 4% were self-employed without a PP and 28% were not working. This gave a total of 47% of the working age population that had some form of non-state pension (*op. cit.* p.3).

Pensions and retirement planning

In this study carried out by A. Hedges a qualitative research methodology was used, involving group discussions in 16 focus groups. They were to last 1 hour and 45 minutes each, with an ideal group size of 6-7 per session. The two reasons for this approach were as follows: -

1. It was considered good for exploring a complex subject as it enabled the researcher to provide information as well as collect it, particularly where public information is likely to be incomplete. Therefore, the approach aimed to gauge reaction to new ideas as well as tap in to what is already in people's minds.

2. It yielded a broad understanding of the way people think and feel and can help participants to work through the subject and explore feelings in a considered way (Hedges, 1998, p.9).

The total sample of 97 participants included five pensioner groups and 11 working age groups and included people of varying age. In both cases, the sample included people of varying pension entitlement. Eight locations in England were used, which aimed to give a reasonable geographical representation of the population. From each location, two groups were used.

All 16 groups were represented equally, that is half men and women, and a good balance amongst the appropriate classes and age groups. For example, Islington – Group 1 was agêd 18-34 and included social classes C2, D and E: Group 2 was aged 45-59 and included social classes C2, D and E (see *op. cit.*, pp.128-129 for full details of other groups).

The use of focus groups opened up debate on the pensions issue. This was indicated in the findings, where the respondents' opinions, particularly on state involvement in pension provision, were advanced. The researcher used prompts and scenarios to make the respondents aware of the current pension system, and encouraged them to express their views. However, a disadvantage to this method is one of subjectivity. If a researcher tries to explain to a respondent information on a particular subject, they may unwittingly communicate bias. This appeared to be the case when the Stakeholder pension (SHP) was introduced into the discussion. The researcher here did not fully explain the risks involved and unsurprisingly the respondents all viewed the SHP positively.

Increasing compulsory pension provision

This study was carried out by A. Thomas, N. Pettigrew and P. Tovey. It was commissioned in July 1998 and used the qualitative workshop at British Market Research Bureau International. The research methodology used eight group discussions and eight in-depth interviews with the general public plus seven mini-groups and 12 in-depth interviews with the self-employed. The two sample profiles were as follows:

Table 4.3: The general public sample profile in Thomas, Pettigrew and Tovey's research

Total	69	**Areas:** Bristol, Liverpool, Wimbledon	
Sex		**Income**	
Male	51%	under £10,000	38%
Female	49%	£10,000 - £20,000	40%
		over £20,000	22%
Working Status		**Pension**	
Full-time work	64%	Occupational (i)	42%
Part-time work	25%	Personal (ii)	32%
Unemployed / not working	11%	State pension only	26%
Age		(i) includes one person with a deferred PP, i.e. they were no longer making contributions	
18-24	20%		
25-39	23%		
40-54	32%	(ii) includes seven members of a deferred OPS, i.e. they were no longer making contributions.	
55-RA	25%		

Table 4.4: The self-employed sample profile in Thomas, Pettigrew and Tovey's research

Areas: Bristol, Liverpool, Richmond		**Age**	
		26-34	29%
Total	52	35-45	40%
		46-RA	31%
Sex		**Income**	
Male	56%	under £20,000	58%
Female	44%	over £20,000	42%
Self-Employment Type		**Pension**	
Traditional - significant assets	21%	Assets as Pension	10%
Traditional - no assets		Personal (i)	48%
(semi-skilled)	21%	State pension only (ii)	42%
Traditional - no assets (professional)	17%	(i) includes 4 people with a deferred OPS into which contributions were no longer being made.	
Contract - semi-skilled	23%		
Contract - professional	17%	(ii) includes 2 people with a deferred OPS into which contributions were no longer being made.	

Source: Tables 3.3 & 3.4 adapted from table 1.1 in Thomas et al, 1998, p.13.

The areas chosen in this sample were to represent a range of urban and suburban catchments and labour markets (Thomas *et al*, 1998, p.12).

As tables 4.3 and 4.4 show, there is reasonable representation of different groups, such as gender, age and income for both employees and the self-employed. But there are limitations in using income as a social indicator, in that it is a less stable measure of standard of living. This study also used focus groups but these were combined with in-depth interviews, which gave detailed opinion on why people may or may not wish for increased compulsion in pension provision (*op. cit.*, p.10). However, the use of focus groups in this research, again did not fully draw out the implications of the risk involved in money purchased schemes (MPS), such as that of the personal pension (PP). The new government's strategy (that is New Labour), the SHP, is to continue with a MPS. If respondents were asked to increase contributions into a MPS that cannot guarantee a decent pension, they might change their opinion on compulsion.

Pensions 2000: Public attitudes to pensions and planning for retirement

This study was a piece of quantitative research carried out by V. Mayhew and used the Omnibus Survey run by National Statistics (formerly, Office for National Statistics). As part of the March 2000 survey, the Department of Social Security (DSS) placed a module of 37 questions on pensions that generated 1693 respondents. Table 4.5 shows the sample breakdown of those interviewed. The sample can be verified in Appendix B as conforming favourably to the 1998-99 Family Resources Survey (FRS) in which 40,586 individuals were interviewed, and hence considered as representative of the population as whole (Mayhew, 2001 p.99).

Table 4.5: A sample breakdown of the respondents in Mayhew's research

Total	1693	**Pension**	
		Occupational (OPS)	46%
		Personal (PP)	14%
		OPS and PP	6%
		State	34%
Gender			
Male	46%		
Female	54%		
Age		**Income**	
16-24	12%	Under £5,200	30%
25-34	17%	£5,200 - £10,400	23%
35-44	21%	£10,400 - £15,600	18%
45-54	18%	£15,600 - £20,800	10%
55-64	15%	£20,800 - £26,000	7%
65-74	12%	£26,000 - £31,200	4%
75+	7%	£31,200 and above.	8%
Working Status			
Full-time work	44%		
Part time work	17%		
Unemployed / not working	16%		
Retired	23%		

Source: adapted from tables B1, B2, B4, B5 & B7 (op cit., pp.99-101).

Furthermore, a survey carried out by Hawkes and Garman five years before used the same data source, and although different questions were sometimes asked, where possible this research intended to draw comparisons between the two surveys (*op. cit.*, p.5). The comparison between the two studies highlighted some interesting findings, demonstrating the value of longitudinal research. However, Pensions 2000 was a much broader piece of research on public perception towards pensions and retirement.

Attitudes towards income and retirement

This study carried out by Age Concern used both quantitative and qualitative methods. The quantitative research data were gathered from questions placed on the Omnibus survey, in which a quota sample of 2,100 adults aged 16 and over were interviewed using 150 different sampling points across the UK. The interviews were conducted face to face, in respondents' homes, using CAPI, (Computer Assisted Personal Interviewing) between 8th and the 11th February 2002 (Age Concern, 2002, p.1).

The qualitative research consisted of two follow-up focus groups among people with moderate to low incomes (£10,500 - £20,000) aged 30 – 40 (the target group for the Government's Stakeholder Pension). The group was held on the 12th February 2002, in a central London location, and a second group was held in Leeds on the 13th February (*ibid.*).

Again, this research used a mixed methodology that is able to provide a good insight into public opinion on retirement whilst developing these findings through the experience of those in the focus groups.

Women and pensions

This study was carried out by J. Field and G. Prior in 1994 commissioned by the DSS. It was a quantitative piece of research that used data gathered by Social and Community Planning Research (SCPR). This research surveyed a representative sample of 2,104 women in England, Wales and Scotland aged 25-64 in different marital status groups plus 313 husbands of the married women from this survey. Furthermore, another survey carried out by SCPR was used, which consisted of 424 recently divorced women aged 25-64 selected from divorce court records of then recent cases (see Field and Prior, 1996, p.3).

The background aim of this research was to look at women's pension provision and the factors that influence women's decisions about pensions. Particular interest was in finding out about the treatment of rights built-up in non-state pensions schemes in divorce settlements and the effects of divorce on women's prospective retirement income. Furthermore this study examined factors that affect women pensions provision, for example, working histories. Finally it explored the extent of women's knowledge about the different pension options (*op. cit.*, p.15)

As a piece of quantitative research this study was limited to finding out how many or what? However, this research was particularly salient because of its focus on women, who make up the majority of the low paid. Thus its focus was of specific importance. In addition, it was a detailed piece of research analysing many variables affecting women, including marital status, net weekly income, employment spells etc.. For example, the research examined the number of years that women had been in different pension schemes alongside their knowledge of these schemes. Moreover, by using closed questions the study was able to identify how much thought was given to putting aside income for a pension. Overall this research offered a good broad perspective on the issues surrounding women's pensions but as it did not incorporate any qualitative research it was unable examine why these inequalities were experienced by women and how it affect them.

Building up pension rights

This study was carried out by R. Walker, C. Heaver, and S. McKay. They used a quantitative research method based on an analysis of the 1994/5 Family and Working Lives Survey (FWLS), a representative survey of over 9,000 individuals in Great Britain aged 16-

69 years. This examined peoples' economic and family circumstances throughout their working lives. The research aimed to contribute to the evaluation of the pension reforms and was carried out by the Centre for Research in Social Policy (CRSP), Loughborough University (Walker et al, 1999, p.9).

As with other studies, as a quantitative piece of research, this study was limited to broad statistical analyses and conclusions. But interestingly, this research neither used class nor earnings to gauge how people over a lifetime build up pension rights. Unlike the other studies investigated, it identified the impact that working in a specific industry or education can have on an individual's likelihood of building up pension rights. It highlighted that problems are not just about class and earnings level, which had been the focus of most of the other studies. However, a study that does not use either class or earnings is limited. For example, it would have been interesting if the research had identified if class status influenced education qualifications and/or choice of industry.

Lifetime experiences of self-employment: Financial provision for retirement

This study was carried out by G. Knight and S McKay. The research methodology used here was quantitative and analysed data from the FWLS. As above, this survey interviewed 9,139 people aged 16-69 in 1994/5 and collected lifetime information on economic activity, family circumstances and pension provision. The breakdown of the FWLS was not explained in this report for either class or gender but it is assumed that as it is a national survey these groups would be proportionately represented.

This study, by not using class as an indicator, does not give a great understanding of who actually are the self-employed. The research does give a brief outline of the type of industry that the self-employed work in and stated that they tend to be either at the lower or upper end of the earnings bracket. Yet generally, by trying to draw out some consistencies throughout the study, the self-employed are treated as a homogenous group that are compared to employees (also from the FWLS). Furthermore, other than a brief mention in the study of the percentage of women who are self-employed, gender is rarely addressed. The fact is that the self-employed are not a homogenous group. They come from various backgrounds with different experiences. However, the study did acknowledge that many of the self-employed had once been employees and therefore they are not simply a group that are isolated from the mainstream. Therefore it is important to emphasise the complexity involved when analysing financial provision for retirement for the self-employed.

Fate, hope and insecurity

This study was carried out by K. Rowlingson and used qualitative research in order to 'explore attitudes and behaviour in–depth' (Rowlingson, 2000, p.7). A total of 41 people were interviewed from a cross-section of the public (see table 4.6).

Table 4.6: The breakdown of the sample used in Rowlingson's research

Gender	**Social Class / Employment Status.**	**Lifecycle stage**
Men	In jobs class A, B and C1 – 24%	Young people (under 35),
51%	In jobs class C2, D and E – 27%	No children – 27%
Women	**Respondent not in jobs**	People with children - 24%
49%	Partner in job – 12%	Older people (over 35),
	Partner not in job – 12%	No children – 24%
	Retired – 24%	Retired – 24%

Source: table adapted from data (op. cit., p.8).

This study argued the need for in-depth interviews to ascertain people's real concerns. This is often neglected if solely quantitative studies are used. Again, by using class as the key social indicator, the study was able to expound the concerns of the working class, who often had low aspirations and limited resources to plan ahead for their retirement. However, and most importantly, this study challenged the current government policy framework. Rather than simply accepting it as the only way forward, it suggested a continuation along this route would widen the disparities that already exist between the classes.

However, as discussed previously, using a qualitative research methodology alone is limited. Although this research covered a wide range of issues in an original way, there were still limitations as many judgements were based on a few individuals in each category. Further research would be needed to confirm findings. Moreover, this research tried to cover a range of policy issues, such as, family planning, education and pension policy. This could lead to criticism that it is too general. Therefore, further studies that concentrate on one particular policy issue would be better focussed to challenge the gaps that exist between the real world and policy aims to which the study refers.

Ethnic minorities and their pensions decisions

This piece of research was carried out by S. Nesbitt and D. Neary and was a qualitative study that focussed on two age groups, the early 20s to mid 30s and those between 40 and 60 years. Besides the Bangladeshi and Pakistani males, a group of white males were also interviewed. These were to act as a baseline with which the ethnic groups could be compared. 'The reasoning behind this structure was to provide: (1) a comparison between ethnic groups with the white groups providing a comparative function, helping to establish the problems that resulted from ethnicity rather than from the general lack of knowledge that is common throughout Britain. (2) a comparison between and within age groups in order to reveal any differences in behaviour that could be attributed to age in addition to ethnicity' (Nesbitt and Neary, 2001, p.vi). The sample size and structure were as follows:

Table 4.7: Sample structure in Nesbitt and Neary's research

COMMUNITY	20 years – 30 years	40 years – 60 years
Bangladeshi	16	15
Pakistani	13	13
White	16	16

Source: Table based on data found on p.10, p.18 & p.26).

The importance of this research is that it concentrated on two ethnic groups, which offered valuable insight in to how different cultures approach retirement. However, it is not claimed that such a study is necessarily transferable to different cultures. As this study used a qualitative approach, it was able to identify differences in how the Bangladeshi and Pakistani communities each viewed retirement, especially by comparison to the more conventional UK pensions system.

However, there were limits to this research methodology. Firstly, it compared two remarkably similar cultures, whereas the UK ethnic minority populations are from varying religious and cultural backgrounds. Secondly, only men participated in the survey. This assumes the stereotype of the male breadwinner in such cultures. But it is known that women in these communities are very involved in the organisation of family business including finance. Hence, a study of this nature should avoid gender bias. Still, this research was an interesting insight that exposed the cultural complexities involved when addressing pension policy.

Risk, contingency and the 'third way"

This study was carried out by P. Taylor-Gooby and used both qualitative and quantitative research. The qualitative study used 4 focus groups of between 8 and 12 participants, each recruited by a specialist agency to include equal numbers by sex and political affiliation. They were conducted in both metropolitan and suburban locations in the south of England. Two groups of working class and two middle class, one of each pair containing younger people and the other those at the later stage of the family life cycle with dependent children. The groups were conducted by an experienced facilitator from Surrey Social and Market Research and attended by the researcher. A common topic guide, developed through reflection on the risk literature and refined though six discursive interviews, was used for all groups (Taylor-Gooby, 2001, p. 200).

The quantitative study used the first seven phases of the British Household Survey (BHPS, 1991-1997) to examine the experience of everyday life, in terms both of general living standards and the impact of particular contingencies, and its relation to social circumstances. The BHPS is a large longitudinal survey that attempts to reinterview the same sample annually so the trajectory of an individual can be traced over time. The initial sample was 10,000 in 1991, but by 1997 this was down to 7,000 owing to attrition. However, data can be weighted to improve representation of population characteristics (*op. cit.*, p.205).

This study then used a mixed methodology. The qualitative analysis was carried out to gauge the respondents' feelings and concerns about their current standard of living and their lives *per se*, and, by using class as the social indicator, revealed that the working class were less confident about their futures. These results were then compared to those gained from the quantitative research. Often qualitative research is carried out to support quantitative findings, but in this case, the contrary was true. This is because the BHPS has more in-depth information on individuals *per se,* and is able to assess actual change in a person's circumstances. The quantitative study identified that many people were not good at predicting their future, thus questioning economic theorising that individuals are able 'rational actors' (*op. cit.*, p.206). Interestingly, this quantitative research was able to assess the impact of specific contingencies on the respondents in the BHPS and the results showed that the working class were far more affected by the impact of contingency than the other members of society (*op. cit.*, p.209). Hence, the quantitative research discovered that the working class had good reason to worry about their futures. This was an original piece of research, especially in its use of the BHPS. Furthermore, it showed that risk does not affect all in society equally, and that this itself is the challenge for government policy.

Research studies on awareness and attitudes towards current pension provision

The first group of studies were primarily concerned with the general public perceptions of current pension provision, namely the state pension, the personal pension (PP) and the OPS and used national databases including the OPCS and the Omnibus Survey, as well as selected groups of individuals from varying locations in the UK in order to gain a representative sample of the country's adult population. Table 4.8 displays the research aim of each of the studies and also a number of their other key features

Table 4.8: Research studies on awareness and attitudes towards current pension provision

Title and Authors	Key Research Aim	Key Questions/Foci of the Study	Key Social Category Used	Data Source
The Goode Report - Non-stated Published 1993	To assess public perceptions of OPS	☐ Identify decisions to join an OPS (or not) ☐ Public perceptions of OPS ☐ Members' concerns with their OPS ☐ Suggestions for change	Class	Office of Population and Censuses Survey (OPCS)
Perceptions of non-state Pensions – C. Hawkes & A. Garman. Published 1995	To assess public perceptions of non-state pensions	☐ Availability and membership of the OPS ☐ Public perceptions of OPS ☐ Knowledge of how the state pension functions ☐ Type of pension considered preferable	Income	OPCS
Pensions and Retirement Planning – A. Hedges Published 1998	To explore public attitudes, knowledge and aspirations in relation to pensions and retirement	☐ Views on the role of the state ☐ Views on means-tested benefits ☐ Views on a public/private sector role in second–tier pension provision ☐ Opinion of the SHP	Class	16 focus groups from eight UK locations
Increasing Compulsory Pensions – A. Thomas, N. Pettigrew and P. Tovey Published 1999	To explore the attitudes of the general public and the self employed on the possible increase of compulsory pension contributions	☐ Knowledge on pensions in general ☐ Attitudes towards different pension schemes ☐ Views on compulsion to save	Income	15 groups from Bristol, Liverpool, Wimbledon and Richmond
Pensions 2000: Public Attitudes to Pensions and Planning for Retirement - V. Mayhew Published 2001	To examine the attitudes of the working age population toward pensions and retirement.	☐ Knowledge about pensions ☐ Thought given to retirement ☐ Views of different pension arrangements ☐ Views on responsibility for providing for retirement ☐ Expectations of retirement	Income	Omnibus Survey run by National Statistics.
Attitude Towards Income in Retirement – Age Concern Published 2002	To gauge public awareness of issues related to income in retirement and their current pension options.	☐ Expectations of retirement ☐ Current planning for income in retirement ☐ Views on responsibility for providing for retirement ☐ Current knowledge on pensions	Class	Omnibus Survey and MORI

The Goode Committee

This was set up in 1992, commissioned by the Conservative Government. It was to be the first comprehensive review of the law relating to OPS. As stated in the report, 'for many their pension rights are the most valuable they will ever have. They need to feel that they are being treated fairly and that future benefits are secure' (1993, Vol. I, p.2). The Goode Committee commissioned research which aimed to assess public perceptions of OPS. The key foci of the research were: to identify decisions as to whether or not to join an OPS; to assess public perceptions of OPS; to identify members' concerns with their OPS; and to make suggestions for change based on these concerns (1993, Vol. II, pp.8-11).

The research firstly identified the reasons for not joining an OPS: 30% of respondents said that they were satisfied with their existing arrangement, 27% said that they did not intend to stay with their current employer and 34% said that they were not eligible (*op. cit.*, p.22). In addition, whilst 45% of those interviewed had an OPS, 33% of workers were not members of their company scheme (where one was available) (*op. cit.*, p.20). Significantly, non-membership was disproportionately experienced by specific groups. For example, the results indicated considerable gender bias, whereas 26% of men were not members of an OPS, for women this figure was 42%. Evidence further showed that this was a class based issue, as only 23% of social class I and II were not members of an OPS compared to 47% in social classes IV and V (*ibid.*).

However, the respondents' opinion of the OPS was generally positive; its perceived advantages were the level of employers' contributions and its provision of a decent pension on retirement; a good OPS was seen as a mark of a reputable employer (*op. cit.*, p.52).

Therefore, there was awareness that the OPS protected the individual from risk, owing both to its contribution structure and characteristic form of benefits at that time. This was confirmed by the fact that employees were more likely to be satisfied if they were in a final salary OPS as opposed to a money purchased scheme. Overall, 35% of people in an OPS were very satisfied, 47% satisfied, with only 2% dissatisfied (*op. cit.,* p.55).

However, some members were concerned about their OPS and felt that it was inflexible. For example, members believed that their OPS was restrictive on pension holder's rights in the case of job mobility, 26% expressing concern about their transferability rights. Not unexpectedly, members showed a greater concern (30%) about the continued survival of their OPS (*op. cit.,* p.60). This is certainly a symptom of the Conservative Party attack on the OPS, in its aim to promote the PP (see chapter 1) and could only harm the confidence of those in an OPS. Additionally, the Maxwell case, mentioned occasionally in the interviews, further eroded confidence in the OPS. In addition, this lack of confidence was exacerbated with members who stated that they were unable to understand how their company schemes functioned and the failure to provide impartial advice for scheme members in simple plain English (*op. cit.,* pp.205-207). Therefore, when asked to give any further suggestions on how to increase their confidence in the scheme, members put forward the following recommendations: there should be greater accountability and regulation on management (*op. cit.,* p.209) and that there should be increased flexibility over transfer of pension rights (*op. cit.,* pp.211-212).

Perceptions of non-state pensions'

This was a piece of research undertaken by Hawkes and Garman in February 1995 commissioned by the Department of Social Security (DSS). The research aim was to assess public perceptions of non-state pensions. The key research questions of the study were: to assess the availability and membership of the OPS; to gauge public perceptions of OPS; to assess public knowledge of how the state pension functions; and to examine which pension scheme is considered preferable amongst different sections of society, including those on different earnings levels, of different ages and those with frequent job changes (Hawkes and Garman, 1995, pp.1-2).

Their findings on OPSs found that 28% of men as opposed to 46% of women were not members of an OPS, where their employers offered such as scheme (*op. cit.*, p.9). These figures support the findings in the Goode Report above. The study emphasised another key area of inequality experienced in accessing an OPS, and this was for part-time workers. For example, only 25% of those in full-time work were without an OPS (where this was available), whereas 51% of part-timers in the same circumstance were without an OPS where this was available (*ibid.*) (part-timers had been eligible to join an OPS since 1995). Earnings were also significantly correlated with membership of an OPS: 43% of those earning between £5,000 and £9,999 p.a. were non-members of an OPS, despite their employer running an OPS, whereas only 14% were non-members if earning between £15,000 and £19,999 p.a. (*op. cit.*, p.13).

Public perception of the OPS, again, was high amongst those able to access an OPS, with 44% suggesting that the OPS was the most secure form of pension provision (*op. cit.*, p.45) .

The final salary OPS was considered by all, except the 16-24 age group, as the non-state pension that offered the best returns on contributions (*op. cit.*, p.52). The views of the 16-24 year olds, however, should not be a surprise as this age group was most likely to be excluded from an OPS, and knowledge and awareness of the OPS normally correlates with an individual's access to such a scheme. Moreover, in this age group many are still undecided on their future career paths; therefore, membership of an OPS to them may be seen as unsuitable.

Importantly, although this study focused on non-state pensions it addressed public opinion on the state second-tier pension, SERPS. The results showed a considerable lack of knowledge of this form of pension provision; many were simply not sure if they were still in SERPS. For example, some respondents thought they were building-up contributions towards SERPS even though they said they were in a contracted out OPS (*op. cit.*, p.38). In addition, only 32% of the respondents correctly realised that it was a pay as you go scheme (*op. cit.*, p.40). But the public's limited knowledge and confidence in SERPS is age related.

Finally, this study addressed preferred pension choice. Findings showed that the PP was favoured by the under 40s, (*op. cit.*, p.69) people with frequent job changes (*op. cit.*, p.71) and people with frequent breaks in employment (*op. cit.*, p.72) while the final Salary OPS was favoured by employees earning over £20,000 p.a. (*op. cit.*, p.65), and in stable employment, whereas SERPS was favoured by those over 40 (*op. cit.*, p.69) and those earning less than £10,000 p.a (*op. cit.*, p.66).

This was a study carried out by Hedges in 1997, on behalf of the DSS. The research aim was to explore public attitudes, knowledge and aspirations in relation to pensions and retirement. The research questions were: to examine the public's views on the role of the state and of means-tested benefits; to explore the public perceptions of a public / private sector role in a second tier pension; and to gauge public opinion on the forthcoming Stakeholder Pension (SHP) (see Hedges, 1998, pp.1-7).

The focus of Hedges' study was to assess public opinion on the state's role in pension provision. As with Hawkes and Garman's study, Hedges found that age was significant in relation to confidence in the state pension; for example, many under 40 years of age felt that the state pension would not be able to support them by the time they retired (*op. cit.*, p.2) whereas older people believed that the state pension would suffice (*ibid.*). These views appeared to be based on the dwindling value of the state pension. Many of the respondents believed that the state should play a greater financial role in pension provision, and was seen to offer reliability, fairness and a means to take care of those on limited income (*op. cit.*, pp.2-3). The study indicated that most respondents believed that the Basic State Pension (BSP) should be between £80-£120 per week for a single person (*op. cit.*, p.3) (the BSP in 1997 for a single person was £62.45), claiming that they would be prepared to pay extra National Insurance to increase the BSP by £20-£30 per week (*op. cit.*, p.4).

Importantly, most of the respondents opposed means testing the BSP (*ibid.*). Further inquiry indicated that some respondents believed that the state should have a role in second-tier pension provision; namely, some form of minimal state second pension should exist and this should remain compulsory (*op. cit.*, p.5). However, most respondents would be happy to accept a pluralistic (private / public sector) approach to the second tier pension above this minimal level (£80-£120 as stated above) (*op. cit.*, pp.4-5), with many wanting the state to play a greater role as a regulator (*op. cit.*, p.5).

In this study, the forthcoming SHP was explained to the respondents; but it is important to note that at the time of this research (1997) information on the SHP had not been published. Hedges described the SHP as flexible and suitable for the self-employed, and even the low paid (*op. cit.*, p.99). There was no mention that employer contributions were optional, and that the risk of investment will be transferred onto the individual (*op. cit.*, Appendix III F, p.146). Therefore, expectedly, first impressions showed that the SHP would be generally well received.

Increasing compulsory pensions

This was a study carried out in 1997 by A. Thomas, N. Pettigrew and P. Tovey on behalf of the Department of Social Security (DSS) in 1997. The research aim was to explore the attitudes of the public and the self-employed on the possible increase of compulsory pension contributions. The specific foci of the research were: to assess the knowledge of both the self-employed and the public on pensions in general; to examine the attitudes towards different pension schemes; and to assess the views on increasing compulsion to save.

Thomas *et al* firstly addressed both the knowledge of the self-employed and the general public (see chapter 3 for sample information) of pension provision, and their attitudes towards the different pension provision. Overall, the knowledge of both the self-employed and the public was patchy (1999, p.17). For example, although many respondents recognised that BSP was based on National Insurance Contributions (NICs), only some were aware that reduced contributions would lead to a reduced BSP (*ibid.*). However, awareness of SERPS was highest amongst the self-employed. This is likely to be linked to the fact that the self-employed cannot build-up any entitlement to SERPS and are aware that they need to make alternative provision. 'It is interesting that it should be the self-employed who were most knowledgeable about SERPS, especially as they are not entitled to it. This reflects their, generally better and wider ranging, knowledge of financial matters' (*op. cit.*, p.18). By comparison, some of the younger members of the public were not even aware of the existence of SERPS and most knowledge on SERPS was associated with 'contracting-out'. However, these details were poorly understood, as some individuals thought that SERPS was a private pension (*ibid.*).

The OPS was better understood by both groups, with the majority realising that it was partly built-up from employer contributions. However, many respondents were confused about other issues connected with the OPS: few understood their transferability rights, whilst others did not understand the meaning of additional voluntary contributions (*op. cit.*, p.19). Most respondents had heard of the PP and many perceived it to be very flexible. However, misunderstanding of the PP also existed, some believing it could be taken out as lump sum on retirement. Interestingly, although many respondents were aware of the misselling scandal surrounding the PP, this had not dissuaded them taking one out (*ibid.*).

When the respondents were asked the amount of pension they were likely to receive from the above mentioned pension schemes, answers were vague. The majority believed that the

BSP would deliver the lowest pension, but most had no idea what SERPS would deliver; however, this was believed to be a small amount. The comparison between the PP and the OPS were confused, some believed that the OPS was the better option because of the employer contributions: others thought that the PP was a better choice, as the contributions were invested in the stock market and likely to gain higher returns. However, for many respondents it was recognised that there was a need to save more for retirement, especially, if they intended to have a pension somewhere near to 2/3 of their average earnings (*op. cit.*, p.20).

Finally, this research investigated views on compulsion to save for retirement. First, some respondents felt that the state had no right to tell people how to spend their money (*op. cit.*, p.38). Second, it was believed that some people who were not working would be unable to save beyond the current contribution rules and therefore compulsion to save for retirement should only apply to all those in employment (*ibid.*). Third, some believed that further compulsion should only occur in certain circumstances, for example, it should exclude people earning below £10,000, individuals already contributing towards a second-tier pension, and people who had reached their mid-forties for whom contributions were now seen as excessively expensive (*ibid.*). However, rather than the need for compulsion, the participants felt that education concerning pensions was more important so that they could make decisions for themselves (*op. cit.*, p.44).

Pensions 2000: Public attitudes to pensions and planning for retirement

This was a piece of research carried out in 2000 by V. Mayhew for the then DSS. The research aim was to examine the attitudes of the working age population to pensions and retirement, while the key research questions were: to assess knowledge about pensions and attitudes to retirement; to explore the views of the public on different pension arrangements; to gauge public opinion on responsibility to save for retirement; and to gauge public expectations of retirement (Mayhew, 2001, pp.5-6).

The assessment of respondents' knowledge found that 13% believed that they had a good understanding of pensions (*op. cit.*, p.8). A breakdown of this result showed that 16% of men, as opposed to 11% of women, believed that they had good knowledge of pension provision. However, 40% of those aged 16-19 said that they had little or no knowledge of pensions, as compared with 10% in the 40-44 age group (*ibid.*). This is certainly linked to the lack of exposure and interest in pensions for the youngest age group. Further disparity was identified when comparing income; of those earning under £5,200 p.a., 40% said that they had little or no knowledge of pensions, whereas this was 22% for those earning £9,360-£20,000 (*op. cit.*, p.9). Yet, above £32,000 p.a., no one stated that they had little or no knowledge on pensions. In addition, findings showed that people in non-state pension schemes claimed to have better knowledge than those in state schemes only. For example, 68% in non-state pensions claimed to have reasonable to good knowledge of pensions, as opposed to 36% who relied solely on the state for their pension provision (*op. cit.*, p.10).

The study found that attitudes towards retirement correlated with age, nearly 50% of the 16-19 year olds had not thought about retirement compared with only 3% of the 45-49 age group (*op. cit.*, p.11). Again income was significant, whereas 25% earning less than £5,200 had not given a thought to retirement this declined sharply to about 1% for those earning £20,800-£26,000. Employment status was also relevant, with 80% of those in work having at least given some thought to retirement, as compared to 40% of those out of work (*op. cit.*, p.12). The report also identified that 87% of the self-employed had given some thought to retirement by comparison to 80% employees. 85% full-time workers had given some thought to retirement by comparison to 68% of part-time workers. Whereas as many as 91% of those with a non-state pension had given some thought to retirement only as few as 47% relying on the state pension had given some thought to retirement (*op. cit.*, pp.13-14).

The views of the public on different schemes indicated that the OPS and PP were regarded positively amongst people of working age; particularly, OPS as they offered good returns and were considered secure (*op. cit.*, p.60). Respondents with an OPS were generally confident about their arrangement and believed it would pay the pension and benefits that they expected on retirement (*op. cit.*, p.63). However, findings showed a reduction in confidence over time; whereas 53% of the respondents in 1995 were very confident with their OPS, this was reduced to 26% in 2000. There was also a reduction in confidence with the PP, 23% saying they were very confident in 1995 with this form of pension, as opposed to only 10% in 2000 (*op. cit.*, p.64). Overall, there was less confidence with the state pension, fewer than 50% of the working age believed that they would receive a state pension when they retired (*op. cit.*, p.65). However, those nearing retirement expressed most confidence in the state pension (*op. cit.*, p.66).

Importantly, when respondents were asked who should be responsible for ensuring that people saved sufficient income for retirement, 50% said the individual, 42% the state with 4% suggesting the employer (*op. cit.*, p.17). However, variations existed with age; for example, those aged 24 and under viewed the state and individual as equally responsible, whilst all the other age groups, excluding those aged 60-64, favoured individual responsibility. Another significant indicator was earnings; those with income under £9,360 favoured state responsibility, but this decreased as earnings increased, with 69% of those earning over £31,200 preferring individual responsibility (*op. cit.*, p.18). Overall, those in work stated individuals should be responsible and save sufficient income for retirement, whilst those out of employment favoured the state (*op. cit.*, p.19). However, as Mayhew noted there was some dissension on this issue, and 'even amongst the [better-off] there still was a significant minority that thought the state should have primary responsibility' (*ibid.*).

Finally, this research examined respondents' expectations of retirement. Findings showed that 81% of working age said they had some savings (*op. cit.*, p.79). People without any savings said they could not afford to save, whereas those with savings said that it was for the future in general, or a 'rainy day' or retirement (*op. cit.*, p.82). Working age people were broadly confident that they would have an adequate income in retirement, covering essential clothes, housing, food and having some money spare for treats or luxuries (*op. cit.*, p.81). Those least confident were those on the lowest incomes who were not making any form of non-state pension provision (*op. cit.*, p.80). As people neared their retirement age, they were less likely to think that their retirement income would be adequate for their retirement. Yet, the majority of those in their 50s and 60s believed that they would have enough for food, clothing and housing (*ibid.*). This implies that the hopes and ambitions people have for their retirement, for some, may not be realised.

Attitudes towards income in retirement

This was a study conducted for Age Concern in 2002. The research aim was to gauge public awareness of issues related to income in retirement and their current pension options. The research questions were as follows: to examine expectations of retirement; to explore current planning for income in retirement; to address who the public considers responsible for providing for retirement and to investigate current knowledge on pensions (Age Concern 2002, .p.1).

This study found that for the majority of those interviewed, the expectations of retirement were that it would be a time to relax and accomplish the things for which they had been saving, such as travelling. However, some felt that they may have to work when they reached retirement age, despite the fact that no one interviewed wanted to work beyond this age. Importantly, many respondents admitted that they had not given retirement much thought. However, and when prompted, those in low paid work were not too confident about their retirement; for example, a cleaner was concerned that he simply would not have much to live on once he retired (*op. cit.*, p.13). Those in more senior positions were less negative about the future: a customer care manager stated, 'my own belief is that everything is going to be OK tomorrow' (*ibid.*).

All the respondents were then asked about their current plans for income in retirement; namely, whether they were making plans for the future, and how confident they were with these plans to give them sufficient income for retirement. Nearly half, 49%, said that they were saving for retirement, but only 21% said that they felt confident they would have sufficient income (*op .cit.,* p.8). This, however, varied with age, gender, social class, and employment. For example, women were less confident (16%) than men (25%) that they would receive sufficient income (*ibid.*). In the case of age, 71% in the 16-24 age group had said that they had not thought or started to save for a pension, even in the 25-34 age group this was as high as 43%. The findings also showed a disparity between single people and couples, with the latter much more likely to be saving for retirement (*op. cit.*, p.9). Social class also had a significant impact on attitudes towards saving, and confidence in having a sufficient income in retirement: 68% of those in social class AB were saving, as opposed to 28% of those in social class DE, whilst 32% of those in social class AB were confident about the level of their income in retirement, only 10% of those in DE were confident (*ibid.*). Another key indicator was employment status with 29% of those in full-time work confident that they would have sufficient income in retirement, as 65% were saving for their retirement, whereas just 5% of part-timers were confident, with only 50% saving for retirement (*ibid.*).

The respondents were then asked who they believed should be responsible for providing for retirement. There was a general belief that both the government and the individual were responsible, with the government's role being that of providing a sufficient safety net. A housing association employee stated, 'I think a lot of people are going to be in trouble if there isn't a state pension' (*op. cit.,* p.15). However some felt that the state should only provide for those who have worked. One man stated that '[i]f you put money into a state pension, you are entitled to the state pension' (*op. cit.*, p.16).

Knowledge of the different pension schemes was investigated in this study. As with other studies, many people were unsure as to how the state pension worked; for example, many were uncertain whether they would receive a full state pension on retirement. In addition, some people were not aware if it was means tested or universal. But when the respondents were told the level of basic state pension most reacted negatively: with one women maintaining 'that is disgusting' (*op. cit.*, p.17).

When the respondents were asked about the OPS, again, knowledge was poor; this despite some respondents being members of an OPS. For example, one man stated, 'as far I am concerned I will get something at the end of it' (*op. cit.*, p.18). However, a minority were clear on how their OPS functioned, one person knew all about the various contributions and what percentages they were (namely, that the state, the employer and employee all contribute) and that his pension would be 2/3 of final salary (*ibid.*).

The study also asked the respondents what they felt about the PP; many in the study were critical and did not trust them. As one man suggested, '[if you are low paid you are better off with a state pension.] If you have nothing and spent every penny you have got and put nothing to one side, it is provided by the state, right from the day you retire' (*ibid.*, p.19).

Finally the study asked the respondents what they thought of the SHP, and although some had heard of it, the majority had not. However, most people did not associate it as pension for them. As one man expressed, 'I think it is aimed at the very low income people, and the problem is that those people can only save £10 or £20 and its not going to go far' (*op. cit.*, p.20).

Table 4.9: Research studies on approach and ability to save

Title and Authors	Key Research Aim	Key Questions/Foci of the Study	Key Social Category Used	Data Source
Women and Pensions – J. Field and G. Prior. Published 1996	To look at women's pension provision and the factors that influence women's pension decisions.	☐ Women's experiences of pension schemes ☐ Factors that affect women's pensions provision ☐ Women's knowledge about the different pension options ☐ Women's plan for retirement and their income expectations in retirement.	Gender	Social and Community Planning Research
Building up Pension Rights – R. Walker, C. Heaver and S. McKay. Published 1999	To examine how people build up pension rights over their lifetimes and the circumstances of those with limited pension provision.	☐ Entitlements to the state pension schemes ☐ Entitlement to an OPS ☐ Duration of stay in non-state pensions ☐ Lifetime perspectives ☐ Wider effect of pension schemes	Industry	Family and Working Lives Survey (FWLS)
Lifetime Experience of Self-employment: Financial provision for Retirement – G. Knight and S McKay Published 2000	To assemble a large volume of information about the self-employed and investigate their pension provision in-depth	☐ Characteristic of the self-employed ☐ The self-employed's approach to saving ☐ The self-employed's approach to pension provision	Income	FWLS
Fate Hope and Insecurity – K. Rowlingson Published 2000	To explore the extent people think about and plan for the future in relation to key economic and social aspects of their lives.	☐ The extent that people think about the future ☐ How far future planning varies with regard to gender, social class and lifecycle ☐ Policy implications of attitudes to forward planning and future orientation	Class	A cross section of the public.
Ethnic Minorities and their Pension Decisions - S. Nesbitt & D. Neary Published 2001	To analyse the ability of Bangladeshi and Pakistani male respondent in Oldham to make pension decision in their best interest	☐ Bangladeshi and Pakistani communities' approach to retirement ☐ Knowledge and understanding of current pension schemes ☐ Cultural differences and how this impacts on decision making in pension choice	Ethnicity	3 ethnic groups from Oldham
Risk Contingency and the Third Way – P. Taylor-Gooby. Published 2001	To examine how people think about the risks they experience in everyday life and the appropriate way to meet them.	☐ Perceptions of current standard of living ☐ Perceptions on the change of society ☐ Impact of contingency	Class	British Household Panel Survey (BHPS)

Research studies on approach and ability to save

The second group of studies were primarily concerned with approaches to saving for retirement and the ability to save (see table 4.9).

Women and pensions

This was a study carried out in 1994 by J. Field and G. Prior for the then DSS. The research aim was to look at women's pension provision and the factors that influence their pension decisions. The key research questions were: to examine factors that affect women's pensions provision; to find out about women's experiences of pension schemes; to explore women's knowledge about the different pension options; and to explore when women plan to retire and assess their income expectations in retirement (Field and Prior, 1996, p.15).

The key to building-up entitlement to a pension is the individual's attachment to the labour market. Previous studies had acknowledged the disparities experienced by women in the labour market. However, this study looked in more detail at the extent of this inequality. The findings showed that the average number of years spent in work of any sort for the respondents was 15.8 years, and that for women reaching retirement age this was 26.7 years (*op. cit.,* p.51). However, this figure does not take into account that much of this employment is part-time work. The study found that for women 45-64, average years in full-time work was 15 years as compared to 22 years in any form of employment (*op. cit,* p.48). The reliance on part-time work was confirmed in the breakdown of the respondents, which showed that of the 55% in employment, 23% were in part-time work (*op. cit.*, p.28).

The results on current membership of non-state pensions schemes found that 22% of all the women surveyed were a member of an OPS and that 15% were members of a PP (*op. cit.*, p.58). Single women reported the highest level of cover with 29% in an OPS and 19% in a PP. OPS membership was also high for those in the 25-34 age group (29%) (*ibid.*). Increased membership of an OPS is partly related to the increased participation of women in the labour force and the eligibility of part timers (predominantly women) to join such schemes since 1995. As the study stated, 'women in this age group are more likely to be working, and perhaps more importantly, working in full-time employment' (*op. cit.,* p.59). The increase in OPS membership amongst the younger members of the workforces has been paralleled by a decline in the number of women from this age group taking out a PP. For example, 20% of the 45-54 year old age group had a PP, as compared to 16% of those aged 25-34 (*op. cit.,* p.58). As the report indicated, 'where the OPS may not have been available to women, they may to some extent, have 'compensated' by taking out a PP' (*ibid.*).

The research showed that 40% of women were either drawing or contributing to a non-state pension, and that 60% were not covered by such provision (*op. cit.*, p.59). However, of women who had previously been members of an OPS, 37% said their rights had been partly or fully cashed in or lost while 60% said that they had transferred their rights to another OPS or to their PP, or left their rights in a past scheme to be paid on retirement (*op. cit.*, p.103). Overall, 42% of women respondents had not had experience of any non-state pension arrangement. The findings indicated that the majority of women relied on the state for pension provision, with 82% of the women interviewed expecting to receive a BSP on retirement. Moreover, 81% said that they had been contributing towards it 'either through paying NI or by having NI credited to [their] record' (*op. cit.*, p.59). Additionally, 20% of the women interviewed expected to receive state benefits through SERPS (*op. cit.*, p.60).

The study then assessed the knowledge women had concerning state pensions. Firstly, the respondents were asked about their entitlement to the BSP: here knowledge was found to be patchy. Although 56% of women were aware that entitlement to the BSP depended on their NICs record, their knowledge of Home Responsibility Protection was poor, as only 14% realised what happened to their NICs record if they were unable to work because of caring responsibilities (*op. cit.*, pp. 146-147). Yet, most women were aware that they would be entitled to some BSP based on their husband's NICs record (*op. cit.* p.148). Knowledge of SERPS in contrast was much lower, with few women aware whether they were currently or had contributed towards SERPS (*op. cit.*, p.144).

Secondly the respondents were then asked about their expectation for retirement. 44% expected to retire at 60 years of age, with a further 22% expecting to retire earlier (*op. cit.*, p.160). When asked about the source of income in retirement, 84% of the total women surveyed expected some income in retirement from their own BSP, 12% from SERPS, 37% from their OPS and 23% from their PP (*op. cit.*, p.165). Essentially the BSP was considered to be the main source of income by all the age groups, except for those aged 25-34. This group could not decide if either their PP, their OPS or the BSP would be the main source of income. Significantly, women with a husband or a partner, expected their partner's OPS to be the main source of income. However, in retirement (60-64 age group) women said that both their own and partner's BSP were the main source of income (*op. cit.*, p.166). Overall, expectation of retirement income showed that 43% of all the women interviewed expected to be worse off than when in work, with 32% about the same, whereas some 16% believed that they would be better of than when in work. For women actually in retirement, 58% said that they were worse of than when in work, 32% the same, with some 8% saying that they were better off (*op. cit.*, p.169).

Building up pension rights

This was a study carried out by R. Walker, C. Heaver and S. McKay for the then DSS in 1995. The research aim was to examine how people built up pension rights over their lifetimes and the circumstances of those with limited pension provision and specifically to research entitlements to the state pension schemes and to an OPS; to explore the duration of stay in non-state pensions schemes and to examine lifetime perspectives and the wider effect of pension schemes (Walker *et al*, 1999, p.10).

Firstly, the study identified that entitlement to the BSP, which is dependent on NICs, varied by gender. For example, by the time men had reached 65 only 8% had not built up 40 years contribution towards the BSP (*op. cit.*, p.25) whereas 55% of women had contributed to less than 20 years by the time they had reached 60 years (*op. cit.*, p.27). The research indicated that the Home Responsibility Protection, designed to improve benefits, did little to improve the disparity facing women. This is because as many as 22% of those aged 50-54 had already spent more than 25 years outside the labour market (*ibid.*). This disparity continued with the state second-tier pension. Whereas 45% of the sample had been members of SERPS at some point (this was as high as 65% for those aged 25-34), the study again found that gender inequality existed, both in the number who had ever joined SERPS and the length of their contribution records. For men in the survey aged 50-59, 17% had 15 plus years entitlement accumulated to SERPS; this for women, in the same age category, was only 12% (*op. cit.*, p.30). However, this disparity was smaller than that experienced in the non-state pension.

In OPS, evidence showed that a disparity existed based on gender, education level and industry in which people worked. Until the age of about 20, men and women were both as likely to be a member of an OPS, but after this the level of women joining an OPS fell below that of men. For example, by the time both groups had reached 45 years, 72% of men had joined an OPS, whereas for women only 45% had become members (*op. cit.*, p.35). Education level was also significantly connected to OPS membership. The study found that almost all those that had obtained an A level standard of education eventually joined an OPS, but for those with an education level no higher than a GCSE grade C, only about 50% were likely to do so (*op. cit.*, p.37). In addition, the type of job was likely to be significant in providing an OPS. Employments that was less likely to offer an OPS were found to be part-time, temporary or seasonal, in a small firm, in manufacturing, in the distribution and construction sector and jobs occupied by women (*op. cit.*, p.39). The findings indicated that industry rather than occupation was the governing factor, if a position was to offer an OPS, and this was particularly high in public administration, and the former public sector owned energy and transport sectors. Despite this, professionals and managers were four times as likely to have an OPS as those in manual occupations even after controlling for other characteristics of the job (*op. cit.*, pp.39-40).

The study then explored how long people remained in an OPS. It found that men who had been in an OPS were members on average for 15 years, whereas for women this was 10 years by the time they had reached 60 years (*op. cit.*, p.44). The research indicated that those with the most significant occupational rights had often started early, 63% of those over 50 with 16 years of occupational rights usually had contributed to an OPS during their 20s (*op. cit.*, p.50). The average time a respondent had spent in a particular scheme was 14.4 years, although 50% had left before 10 years (*op. cit.*, p.51). Men again stayed on longer in an OPS, with 50% of them being in an OPS for 12 years, whereas for 50% of women this was 8 years (*op. cit.*, p.52). Significantly, the length of time spent in an OPS depended on the type of scheme, and while the median time period spent in a DB OPS was 13.9 years, this was only 7.3 years for a DC OPS. The study also indicated that people stayed longer in their first OPS than in subsequent ones (*op. cit.*, p.53).

In the examination of lifetime perspectives, the research identified eight different patterns of economic activity and membership of OPS. Namely, 21% of the respondents had been members of an OPS all their lives; 73% of this group were men (*op. cit.*, p.59). A further 20% had generally worked, and though working virtually continuously throughout life, did not belong to an OPS; these people tended to be workers in lower status employment; 32% of this group had taken out a PP (*op. cit.*, p.66). The other groups were characterised by late entry into an OPS followed by a period of employment stability or by periods out of the labour market on account of caring responsibilities or more rarely, long-term unemployment. Moreover, findings showed that economic inactivity did not necessarily stop people from contributing towards a non-state pension, although long periods of unemployment reduced the likelihood of a person having a non-state pension (*ibid.*).

On the wider effects of pension schemes, this study investigated whether belonging to a non-state pension affected the time that a person remains in a job and the timing of their retirement. 80% of the respondents that were in an OPS said it made no difference to the time they spent in a job, but 10% said that it was significant and meant that they would stay longer in their job (*op. cit.*, p.104). This was again linked to gender as the findings showed that twice as many men than women said that they would stay in a job longer because of an OPS (*ibid.*). But it was the type of OPS that had the greatest influence in retaining staff; 13% in a salary related pension were more likely to remain in their jobs as opposed to only 5% with a DC OPS (*ibid.*). With the issue of early retirement, it was found that those with an OPS seemed to retire earlier than those without an OPS. Yet, early retirement seemed to be connected to the desires of many in non-state pension *per se*. For example, 51% of men who have ever contributed towards a non-state pension expected to retire at 62, or earlier, compared with only 34% of others who had not joined a non-state pension (*op. cit.*, p.108).

Lifetime experiences of self-employment: Financial provision for retirement

This was a study carried out by G. Knight and S. McKay in 1994 and 1995 on behalf of the then DSS. The research aim was to assemble a large volume of information about the self-employed and to investigate their pension provision (state and non-state) in depth. The research looked at the characteristics of the self-employed and explored the approach of the self-employed to saving and to pension provision (Knight and McKay, 2000, p.7).

The research identified that self-employment amongst the male working population was 16%, whilst for women it was only 7% (*op. cit.*, p.8). Self-employment increased with age; for example only 5% of the working population were self-employed between the ages 16-29, 13-15% in the age group 30-59 and 21% aged 60 plus (*op. cit.*, p.9). The personal characteristics of the self-employed drawn from the data showed a general picture of stability: stable lives, stable employment (*op. cit.*, pp.13-24). The self-employed were concentrated in particular jobs and industries; 25% declared themselves as managers and administrators, whilst 22% regarded themselves as 'craft and related', the latter group predominantly skilled manual workers (*op. cit.*, p.29). The self-employed were more likely to feature both in the lower and upper end of the earnings distribution with 29% earning less than £3,600 per year (*op. cit.*, p.33). Almost all self-employed persons had previous experience in standard employment and the time spent in this form of employment was frequently greater than the period spent in self-employment (*op. cit.* p.38).

The study then explored the approach of the self-employed to saving for retirement. The key findings showed that the self-employed were more likely than employees to build up both capital and liquid assets to protect themselves in retirement. For example, 19% of the self-employed as compared with 9% of employees had savings greater than £20,000. Median total level of saving for an individual was £4,000 for the self-employed compared to £2,100 for an employee (*op. cit.*, p.71). In addition, the self-employed were more likely to be homeowners, 18% of the self-employed owned their property outright, whereas the corresponding figure for an employee was 10% (*op. cit.*, p.73). The findings also showed that even accounting for age, the self-employed were more likely to be outright owners of their accommodation and have larger savings. Therefore, the research indicated that the response of the self-employed to saving for retirement, by comparison to employees, is to have a greater reliance on liquid and capital assets. This is perhaps connected to the fact that the self-employed are excluded from the state's second tier pension and employer based schemes. With the knowledge that these options are unavailable to them they are probably more inclined to build up assets in this way. Yet, research also found that the self-employed had comparably high savings in private pensions (*op. cit.* p.74).

The key findings on the approach of the self-employed to pension provision found that 75% of them had spent some time contributing towards a non-state pension, as had 72% of employees in this survey (*op. cit.* p.75). The self-employed had spent an average of 4.5 years in OPS and 5 years in a PP of all types (9.5 years in total). This compared to employees who had an average of 7.5 years in an OPS and only 1 year in a PP (8.5 years in total); (*op. cit.*, p.76) therefore indicating that the self-employed's approach to saving via a private pension is more concentrated towards the PP, although some had contributed to OPS prior to being self-employed. Overall, private pension provision compared favourably with those in standard employment. Moreover, analysis of age groups; 16-29, 30-59 and 60-69 showed that rights to a BSP were built-up equally amongst the self-employed and employees (*op. cit.*, p.79).

Fate, hope and insecurity

This was a study carried out by K. Rowlingson, supported by the Joseph Rowntree Foundation. The research aim was to explore the extent people think about and plan for the future in relation to key economic and social aspects of their lives. Specific foci were an exploration of the extent to which people think about the future and how far planning varied in relation to gender, social class and lifecycle and to examine the policy implications of attitudes to forward planning and future orientation (Rowlingson, 2000, p.3)

The study found that the extent people thought about their future was generally limited, and most people tended to focus on forthcoming socio-economic events rather than looking into the future. For example, those at university could not see beyond graduating; one person was waiting for the result of a job application; one woman could not see beyond two years when she could clear a debt (*op. cit.* p.11). Those who considered the long-term future were often focused on the futures of their children. This short-term horizon came down to three key factors: firstly, difficulty in imagining what the future would be like; secondly, unpleasantness associated with the future, namely possible ill health and death; thirdly, the possibility of tempting fate (*op. cit.*, p.12). Thus many people do not think much about a future life in retirement, unless they are nearing retirement age. However, as the findings indicated, this does not mean that plans for the future have been avoided. For example, many people had decided to save via a private pension in the hope of securing a comfortable retirement (*op. cit.*, p.19).

This research was concerned with how future planning varies with age, gender and social class. The role of age or generation indicated that in the past young people would often conform to the 'ideal' of getting married young and having children. For example, this was seen by some as so inevitable as requiring no thought or planning at all (*op. cit.*, p.20). Nowadays, the younger generation is more aware of the risk of divorce and is delaying marriage; some even avoiding it completely while others prefer to wait until their late twenties or thirties before making such decisions (*op. cit.*, p.21).

The role of gender showed that for the older generation, in which traditional approaches to life were followed, women concentrated more on issues that revolved around marriage and motherhood. This is now changing, as traditional gender roles have broken down and the younger women interviewed were just as likely to be concerned about their future job prospects as men (*op. cit.*, p.21).

This research identified three types of planner: these were detailed planners, general planners and non-planners (*op. cit.* p.31). The non-planners tended to be working class, who often experienced insecure employment and were less able to contemplate anything but the present (*op. cit.*, p.32). Interestingly, the study found few detailed planners which Rowlingson identifies as the 'model citizen' (*op. cit.*, p.39). The study addressed the fact that limitation to plan ahead is linked to insecurity in employment, which is often linked to low and insecure incomes. For these individuals, it is more difficult to predict what the future will be like, and limited resources allow little opportunity to plan. Yet, this study argues that this group needed to plan ahead more than others. Although Rowlingson refers to Furedi, who argued that 'in Britain there exists a 'culture of fear', with people lowering their expectations and frightened to take risks' (*ibid.*), her research found it is not just about raising people's expectations rather it is more about breaking down barriers that prevent some from achieving their potential. For example, in education, financial cost remains a hurdle for the lowest paid.

The implication for policy is that because of the uncertainty that operates it is difficult for many to plan ahead, for example, at the national level, frequent government change, along with their policies, has led to a number of pension reforms. This has left many confused and unsure of what type of pension policy might exist in the future. Key debates here were: whether the government might seek to make pension saving compulsory; the role to be played by the state; the appropriate balance between state, employer and the individual. As Rowlingson argued, some people in this study benefited from compulsion; joining an OPS having served some well for their retirement. It is also clear that some people who had taken out a personal pension were not paying enough into their scheme to provide for themselves (*op. cit.*, p.41). Nevertheless, pensions are very complicated and a long-term product. This research suggests that people needed protection from the market. Yet, the policy makers are moving away from collective state planning towards individual planning (*ibid.*). This research concluded that this would be detrimental to those in the lowest income brackets with few resources to plan for their futures. 'Insecurity, anxiety and fatalism currently dominate too many people's lives. It is within policy makers to foster greater hope, confidence and excitement about the future' *(op. cit.*, p.42).

Ethnic minorities and their pensions decisions

This was a study carried out by Nesbitt and Neary in 2001 funded by the Joseph Rowntree Foundation. The research aim was to analyse the ability of Bangladeshi and Pakistani male respondents in Oldham to make pension decisions in their best interest. The specific research questions were: to explore the Bangladeshi and Pakistani communities' approach to retirement; to examine their knowledge and understanding of current pension schemes; and to identify cultural differences and how this impacts on decision making in pension choice (Nesbitt and Neary, 2001, p.1).

This study found that although the Pakistani community has lived in the UK much longer than the Bangladeshis, both communities' interest in saving for retirement via a pension was minimal. As Nesbitt and Neary stated, '[their approach is] at best fatalistic and worst uncomprehending about retirement' (*op. cit.*, p.38). This is considered to be deeply rooted in the Asian Islamic background in which both communities rely on intergenerational support: the older generations are supported, when possible, by their children. Importantly, the role of the family was strong in both age groups for both communities. Yet, in addition to these family ties, there is a financial commitment to their communities' known as the Izzat (*op. cit.*

p.40). This is an intricate web of social and financial relationships, which the findings indicated has a dual effect on saving for pensions: first, to reduce the need for a formal pension, second, to reduce the opportunity to save for a second-tier pension (*op. cit.*, p.41).

Therefore, with this different approach to retirement provision, it is not surprising to find that this influenced the knowledge of the UK pension system in both the Pakistani and Bangladeshi groups. For example, the findings showed that they had little understanding, technical or intuitive, of how different types of pension provision functioned. Importantly, the younger generations of the Pakistani and Bangladeshi communities were no better informed than their elder counterparts (*op. cit.*, p.35). On accrued pension rights, it was found that the older Pakistani and Bangladeshi respondents had little or no idea if they had paid into an OPS in their previous employment (*op. cit.*, p.36). Although many had worked for small concerns, some had worked for large employers and would have certainly paid employee contributions into an OPS. Moreover, both communities seemed unaffected by the current fears expressed by the white respondents, that the state pension would be insufficient for retirement. Even when the pensions scandal was mentioned, such as the misselling of the PP, both the communities seemed unconcerned (*op. cit.* pp.36-37).

Essentially these groups experienced low wages and had usually to finance the upbringing of comparatively large families, and on occasions retired parents (*op. cit.* p.40). In the Bangladeshi community some in the older group have not been able to work since they were in their 50s and are considered retired by their adult children. The Pakistani and Bangladeshis were also predominantly homeowners, living in old properties that required a high degree of maintenance (*ibid.*). These various current commitments, though it must be noted these are not all mutually exclusive to the Bangladeshi and Pakistani communities, means that saving for the future is not often considered as that important; particularly when there is a intergenerational support in place (*op. cit.* p.42). Moreover, these cultural ties still remain strong. For example, in spite of the Pakistani community living in the UK for many generations, they have maintained their Asian Islamic cultural values. However, the research question aimed to find out if these groups were able to make pension decisions in their best interest. The research results suggested that these communities lacked knowledge and interest in the UK pension system. Still, some of the older group members may have unknowingly accrued pension rights from previous employment. Therefore, knowledge in this field would help these individuals claim what is rightly their entitlement.

Risk contingency and the 'third way'

This was a study carried out by Taylor-Gooby in 2001; the research was undertaken by Surrey Social and Market Research at the University of Surrey and the Institute for Social Research at the University of Essex and used data supplied by the ESRC Data Archives. The aim of the research was to examine how people think about the risks they experience in everyday life and the appropriate way to meet these risks by looking at perceptions of current standards of living, analysing people's perceptions on the change of society and exploring the impact of contingency (Taylor-Gooby, 2001, p.200).

This study identified that for both the younger and older generations, irrespective of social class, finance was a prime concern. However, financial concerns were greatest amongst the working class, as they were more likely to experience insecurity in employment. After finance, health was the next major concern; both these issues in contemporary society were perceived to be linked with greater insecurity than in the past. For example, the respondents often mentioned the fact that now 'no one has a job for life' (*op. cit.*, p.201). Moreover, respondents also believed that the welfare state was in decline, and it was typically assumed that the state pension would wither away and that individuals would need to provide for themselves in the future. When asked how they felt about current society the respondents perceived it as consumerist, affluent and materialist. The rising standard of living was linked to greater insecurity in two ways: first, many respondents talked of affluence and how people took for granted what they would not have expected in the past, while the failure to attain this led to relative deprivation; second, a higher potential standard of living together with increased labour market insecurity made the struggle to gain an acceptable living standard harder for young people and more insecure for older people (see *op. cit.*, p.203).

The study then analysed people's perceptions of their current standard of living, and how this was changing. In general, the respondents were optimistic, with over 60% seeing themselves as comfortable in each year of the survey (1991-1997). But when the respondents were asked to comment on their financial circumstances the previous year and to predict their circumstances for the next year, it appears that this comfort for some is misplaced. 'Comparisons of the answers in one year about the next year's anticipated position with reports of last years experience in the *next* annual round of the survey indicated that nearly 50% were in fact mistaken in their predictions' (*op. cit.*, p.206). As Taylor-Gooby argues, '[these findings question] the implication [of] the tradition of economic theorising which sees individuals as rational actors able to make deliberative choices between alternatives to satisfy their future wants' (*ibid.*).

However, while the working class respondents tended to link the change in society with insecurity, the middle class saw the change more positively. The difference in this attitude, the study showed, was associated with the opportunity to manage risk. For example, the middle-class were more likely to invest in a PP in which returns for them are predominantly greater, as the solution to the 'increasing risk'. Yet, the working class were more likely to rely on the state for support, although some of the working class would have liked to have contributed to a PP in the hope of improving their lives in retirement; this they found difficult to afford. Therefore, the study indicated that the increasing insecurity in society is not experienced equally by all its members (*op. cit.*, p.206).

Finally, the study explored how certain events, such as lone parenthood and unemployment, would affect different social groups. It found that overall, being working class roughly doubles the occurrence of such contingency; therefore, membership of the working class is associated with much higher risk (*op. cit.*, p. 207). Hence, the study found that the working class had good reason to feel more concerned about the paths open to them in the today's changing society (*op. cit.*,. pp.209-210).

Examination of key findings

The first two sections of this chapter discussed a number of research studies on the awareness and attitude of individuals towards pension provision, and their approaches and ability to save for retirement. In this concluding section key findings from these studies, will be identified. Examination of the findings identified that public awareness and understanding of the state pension schemes was generally poor (Hedges, 1998 & Thomas *et al*, 1999). For example, knowledge on the Basic State Pension (BSP) amongst the public was patchy; although many realised that it was based on NICs, only some respondents realised that insufficient NICs resulted in a reduced BSP (Thomas *et al*, 1999). Moreover, only a few women understood the Home Responsibility Protection (HRP) scheme and how this affected their NICs record when not working (Field and Prior, 1996). Whereas with SERPS, three studies identified that this was best understood by those over 40 while respondents below 40 years of age appeared to have little or no awareness of SERPS (Hawkes and Garman, 1995, Hedges, 1998, and Thomas *et al* 1999). As the UK pension system is very complex and frequently changing it is not surprising to find that people's knowledge is varied. But importantly, for those under 40, their poor awareness of SERPS appears to be connected to its devaluation in 1986 by the Conservative Government (see Chapter 1). This devaluation also possibly extended to the state pension; for example some young people did not believe that a state pension would exist by the time that they retired (Hedges, 1998).

Yet, the awareness and understanding of non-state pensions correlated to access (Mayhew, 2001), which frequently disadvantaged the less well off sections in society. Either they cannot afford to contribute a sufficient amount to a Personal Pension (PP) to make it viable, or they are simply excluded, as with the DB OPS. Significantly, the findings indicated that women and/or social groups D and E (equivalent to IV and V: partly-skilled occupations and unskilled occupations respectively) and part-time workers were most likely to be excluded from a DB OPS (The Goode Report, 1993 and Hawkes and Garman, 1995). Access, therefore, is both a gender issue, as women are more likely than men to be low paid, employed part-time, and less likely to have a non-state pension (Field and Prior, 1996); and a class issue, as the working class tend to be low paid and in insecure employment (Rowlingson, 2000 and Taylor-Gooby, 2001). Furthermore, it reinforces the inequalities that already exist in society, as the less affluent groups have to rely on a dwindling state pension for their retirement topped up by means tested benefits. Consequently, the findings indicated that inequality both of awareness and of access influenced pension choice for specific sections of society. For example, the DB OPS was chosen by those on medium to high earnings, and in stable employment. The PP was preferred by those below 40 years, and by frequent job changers, whereas SERPS was the choice for many over 40 years, respondents earning less than £10,000 and those who experienced regular periods of unemployment (Hawkes and Garman, 1995).

However, the overall opinion of the respondents on the different schemes showed that all but the youngest group regarded the DB OPS as the best pension option (*ibid.*), because of the relatively high employer contributions paid into these schemes. In addition, the pension is linked to earnings; and the employer absorbs any risk involved if there are low returns on investment. Interestingly, some companies have started to introduce DC OPS, transferring the risk from the employer onto the individual. Findings identified that between 1995-2000 there has been an overall decline in confidence of members in their OPS since this change (Mayhew 2001), suggesting that people are not comfortable with the change, and possibly fear that their DB OPS may be switched to a DC OPS without their agreement sometime in the future.

The respondent's views of the PP were mixed. For example, many young people believed that it would produce a good pension, some even believed that this would be better than a DB OPS. The confidence shown by the younger generation in the PP, however, should not be surprising, the devaluation of SERPS, coupled with the restricted access to an OPS making it an attractive option. Yet, research found that many respondents had poor understanding of how the PP is invested (Thomas *et al*, 1999 and Mayhew, 2001). Essentially, the PP is a MPS and is vulnerable to the vagaries of the market; this confidence in the PP, therefore, is unfounded. Research findings identified that some respondents did not trust the PP because of the misselling scandal (Age Concern, 2002).

Significantly, the current Labour Government has recently introduced its own MPS, the Stakeholder Pension (SHP). The aim is to redress the mistrust of the PP, while retaining a pension that is flexible. First impressions of the SHP were divided; in one study opinions were positive, although the full implications of the risks involved were not adequately explained (Hedges, 1998), whereas in another study some respondents did not see the SHP as a pension they wished to have (Age Concern, 2002). These tenuous findings are not surprising as the studies themselves were carried out either before the SHP had been introduced, or just at the time of its introduction.

Respondents did not have positive views of the state pension. However, this was because of the poor returns expected, as opposed to the concept of the state pension itself. For example, many of the younger respondents did not believe that it would offer them a decent pension, others feared that there would not be a state pension by the time they retired. The BSP was viewed by most respondents as the pension paying out the least (Thomas *et al* 1999), also SERPS, although not really understood, was also considered to offer a poor return, especially when compared to non-state pensions (Thomas *et al*, 1999 and Mayhew, 2001). These attitudes, as previously mentioned, possibly correlated with the devaluation in 1986 of the state pension.

Findings indicated that the respondents were prepared to pay more for a better state pension (Hedges, 1998). Moreover, although a majority with higher earnings and with non-state pensions believed that the individual should be responsible and save for retirement, a significant minority in all sectors recognised the importance of the state as the provider of a decent pension (Mayhew, 2001). Many believed that the BSP should be at least at the level it would have reached if unaffected by 1980 Social Security Act: today it is index linked to the Retail Price Index (RPI) only. There was also agreement amongst the respondents that a respectable compulsory state second pension should coexist with the BSP (Hedges, 1998). Essentially, this would be a state pension that is more in line with the pre-1980 changes, as opposed to the current strategy, which intends to reduce the percentage of GDP expenditure on pension in the next 50 years. Therefore, the current government policy is difficult to reconcile with public opinion, which views the state as having a significant role to play in pension provision. Moreover, these views may be strengthened in the future if individuals find that they are unable to manage the enhanced risk which could result from pension reforms.

The Government has reverted back to old style means testing to counter the shortfall between a poor state pension and the level considered reasonable to live on. Again, the Government policy does not reflect the research findings, as most respondents disliked means testing. They viewed it as demeaning (Hedges, 1998). Paradoxically, means testing undermines the Government's policy which aims to encourage saving. In response to this, the government has considered looking at the possibility of increasing compulsion to save for retirement. However, initial findings indicated that the public is predominantly against any such compulsion, with many believing that increasing education on pensions is the better solution (Thomas *et al,* 1999).

The approach that the respondents had to retirement, again, was linked to socio-economic well being. It was found that most people do not look too far into the future, as retirement is often associated with negative occurrences: people generally concentrated on current socio-economic issues (Rowlingson, 2001). Yet, respondents who are better off are most likely to have made (non-state) pension plans; thus they had given retirement a thought. As the findings indicated: full-time employees are more likely to have given thought to retirement than part-time workers; twice as many in work in contrast to those not working had given thought to retirement, and nearly twice as many in non-state pensions compared to those in the state pension only (Mayhew, 2001). This again correlates with the findings that these groups are more likely to have access to, or have the finances to contribute to, a non-state pension.

However, research findings indicated that pension planning alone was not the only approach to saving for retirement. For example, the self-employed, although having a greater reliance on the PP than employees, looked to increase their liquid and capital assets, and by retirement had more savings, and were most likely to be homeowners than employees (Knight and McKay, 2000). Moreover, the approach of the predominantly low paid Pakistani and Bangladeshi communities in the UK to retirement is steeped in tradition. Their communities are built on intergenerational support, in which the current generation supports their elders. So extensive is the commitment to family and community ties that it makes it almost impossible for individuals to contribute toward a decent second-tier pension (Nesbitt and Neary 2001). Importantly, this demonstrates that a good social support system is necessary to protect those most at risk. Overall though, the lack of thought to retirement correlated with the confidence people felt about their retirement.

Findings indicated that whereas the low paid were not confident that they would have enough to live on when they retire, the middle to high earners showed far greater confidence (Age Concern, 2002). Therefore, the ability to save for retirement affects the extent that particular sections of society are able to contemplate their futures.

This limited ability to save affected many women; particularly, because they had in the past spent many years out of the labour market owing to the traditional gender roles, resulting in insufficient NICs to warrant a full BSP for themselves. Just over half the women had 20 years contributions by the age of 60. This is less than half the maximum NICs of 44 years and therefore the HRP was little help (Walker *et al*, 1999). While married women have been able to rely on their partner's pensions, increases in divorce have left many women vulnerable both in respect of the BSP and non-state second pension. Although recent legislation has introduced pension splitting of the latter, the value depends upon the value of the accumulated fund. Today younger women are starting to save more, like their male counterparts (Rowlingson, 2000) but these changes will take many decades to filter through the system. For example, nearly 2/3 of women were not covered by a non-state pension (Field and Prior, 1996); with the decline in the value of the state pension it is not surprising to find that women are not confident about retirement (Age Concern, 2002).

In addition to the difficulties that women face, there is the issue of class: the working class are often in low paid and in insecure employment, without savings, relying on the state for their pension (Age Concern, 2002). Working class respondents were often non-planners, primarily due to inadequate resources (Rowlingson, 2000). Significantly, pension provision has changed from collective to individualised provision thus shifting the risk onto the individual. Government policy continues to believe that all but the poorest in society should save for their retirement. However, the studies by Taylor-Gooby (2001) and Rowlingson (2000) emphasised that following the current government route will exacerbate the situation for the less well off in society.

Risk and the low paid

The research studies in this chapter have discussed extensively knowledge of different forms of pension provision, attitudes and approaches to savings for retirement. The research studies were organised around categories such as class, income or industry or targeted groups such as women, the self-employed or members of ethnic groups. The distinctive focus of this thesis is on the low paid. While the low paid have been subsumed into the above categories/targeted groups, no other study has concentrated solely on this group. Yet with the changing role of the state, with more responsibilities being devolved to individuals and families the consequent reallocation of risks is likely to have significant implications for the low paid.

This thesis explores the extent to which this reallocation of risk is fully understood and accepted by low paid workers and how they are responding to this trend. To develop this further, the investigation moved on to conduct in-depth interviews with low paid workers. The organising questions build on the research findings discussed in this chapter. The interviews aimed to identify respondents' current pension provision. Their knowledge of different pension schemes was examined, together with their awareness of the risks involved in these forms of provision. A key policy development of the post-1997 Labour Government has been the introduction of the means-tested Pension Credit (formerly the MIG). While it is generally agreed that this has raised the incomes of the poorest pensioners (where they have claimed it), it is also argued that it has the potential to reduce the incentive for the low paid to save, particularly if that saving is unlikely to guarantee them a decent retirement income. The issue to be explored further through interviews, therefore, was whether the existence of means tested benefits would have an impact on savings decisions for retirement.

Since the 1980s governments have sought to redefine responsibility for pension provision, essentially shifting from socialised and collectivised to individual forms. The efficacy and viability of such a development in respect of the low paid is the issue to be explored. A key focus here is the future responsibility of employers. A final question relates to whether, if increased state spending on pensions is favoured (as indicated by this research) it should take the form of a higher flat rate pension or some form of state earnings related scheme.

CHAPTER 5: EMPIRICAL RESEARCH: ANALYSING THE ATTITUDE AND AWARENESS OF THE LOW PAID ON SAVING AND SAVING FOR RETIREMENT

This chapter draws on the results of the empirical research (28 interviews) to consider the questions:

What are the attitudes of the low paid towards saving and retirement and to what extent are they aware of the reallocation of risks?

This chapter is divided into two parts. First it examines the attitudes of the low paid towards saving and retirement and explores their *attitudes* towards current pension policy and the more recent proposals that have been introduced. Second it examines their *awareness* of current schemes and more recent proposals that have seen a reallocation of risk due to the changing role of the state with a consequent shift in responsibilities to other bodies, including the individual and their families.

Attitudes of the low paid towards savings and retirement

The importance of *attitude* has been explored by Labour in a recent White paper, *Simplicity, security and choice: Informed choices for working and saving.* The paper looks at saving in general with a particular emphasis on saving for retirement. 'We want to take forward a programme that works and really makes a difference to people's attitudes and behaviours' (DWP, 2004, ch.1, p.11). Significantly it adds 'the government believes that given the right opportunities, people will plan ahead sensibly' (DWP, 2004, p.6).

The approach they have adopted to creating the right opportunities has been the introduction of the State Second Pension (S2P) to protect those on an income below £10,900 p.a.[15], whilst above this income level, those who are not in an Occupational Pension Scheme (OPS) are to be encouraged to save into the Stakeholder Pension (SHP). The SHP is seen by the Labour government as a partnership between the state and the private sector. This approach continues the neo-liberal policy of previous governments that promotes rights and responsibilities. As the Labour government stated in its Green paper: *A new contract for welfare: Partnership in pensions* '[t]hose who can save have a responsibility to do so. The State should ensure that they have access to secure, good value pensions. And the State should give particular support to those who cannot be expected to save' (DSS, 1998, ch.4, para.2.) But as Rowlingson stated (2002, p.624), 'those who fail to make adequate provision for themselves are, and increasingly will be, tarred with the brush of irresponsibility'.

The SHP is a privately funded money purchase scheme (MPS) that cannot guarantee the recipient a definite sum on retirement as its success relies on the vagaries of the market. The issue here is that many regarded as low paid are seen as ideal candidates for the SHP (based on the Low Pay Units definition of low pay: £14,500 p.a.[16]). Interestingly, the Council of Europe regards low pay to be £16,400 p.a.[17], which coincides with debates such as that put forward by Frank Field who suggests anyone earning below £16,000 p.a. is safest in the S2P (The Guardian, 2001, 17th August). But continued low take-up of the SHP within this target group has increased pressure on the government to introduce compulsion to save into the scheme. And although the

[15] April 2002
[16] Ibid.
[17] Ibid.

voluntary approach is still preferred, for how long is another issue. This chapter will look at the assumption that attitude and awareness are barriers to saving for retirement, and drawing upon the views of respondents in the study, will observe possible disparities between policy aims and the real world.

First, it was important to find out if the respondents' attitudes were hostile to the concept of saving. This was achieved by using the typology put forward in a study by Rowlingson *et al*, in which the respondents were asked to choose the statement that best suited them when describing their view on saving.

1. You should always try to save some money for a rainy day
2. You should save some money at some stages in your life but not all the time
3. You should live for the day and not worry about saving for the future (1999, p.64).

Most of the people interviewed supported either statement 1 or 2 to describe their view: rarely was the 3rd statement supported. When it was used, one person recognised it as a 'silly attitude' but said 'that's the way [I've] always been' (Frank, caretaker). Significantly, this person was currently in an Occupation Pension Scheme (OPS). So from these findings, the dominant view is positive about the need to save and on attitude alone would conform to the government ideal of the 'responsible citizen'. Moreover, no obvious link between low pay and a negative attitude towards saving was found.

When asked why they had this view, the respondents' replies referred to: parental/family advice; life experience; the responsibility of having children; future unpredictability/security; and common sense. As one person stated, 'my parents are not the sort of people to go out splashing money on expensive holidays and doing this and that and it's paid off for them now, because they're quite comfortable now they're getting near to retirement age' (Emma, warehouse operative / cleaner). Another just said 'I worked it out for myself, because no one knows tomorrow' (Anthony, security officer). But in one case, where a person had a 'live for the day' attitude towards saving, she said, 'life is too short to worry about ... both my parents died at a very young age. And as a child I can remember my mum saying to my dad let's do this, let's do that and my dad saying, no, no, no, we can't afford it, lets wait until we retire. So I never wait for anything until I retire – ever' (Eileen, retail sales advisor). These findings showed therefore that upbringing for some had a positive influence on attitudes to saving, whilst for others personal experience was important in shaping attitude. However, as in the last example, personal experiences can have a negative impact on saving and saving for retirement. Moreover, these experiences may not be the result of financial circumstances. The green paper (DSS, 1998) fails to recognise the importance of personal circumstances and how this shapes attitudes towards saving for retirement; it simply assumes that not to save is imprudent.

The respondents were then asked if they had always had this attitude towards saving. In reflecting on how they used to think, the following types of responses were noted: used to save less and lived for the day a bit more; did not think about saving; or could not be bothered to save. But some said they had been no different in the past,: they had always tried to save: few said they saved more. So although there may be an understandable tendency to be more carefree when younger, as one was more likely to have fewer responsibilities, this was not the case for half of the respondents in this study. Moreover, when asked about the future, and the attitude they were likely to have, most said they would like to be saving more; some said they would keep the same approach; less commonly there were those who said they would relax on their saving. Interestingly, the latter respondents had currently a 'save for a rainy day' attitude towards saving and would like to enjoy life more in the future. Therefore, the findings show that the widespread attitude of the respondents which is currently positive towards saving seems likely to continue in the future.

The respondents were then asked if they considered saving for retirement to be important: only one person said it was not. In rare cases, and these were from the 30-39 age group, respondents had not even given retirement a thought. This is to be expected as some in this age group have still not settled down and may have career paths to find. As Rowlingson (2000, pp.19-20) found in her study, 'young people's aspirations and expectations seem quite different from previous generations. They have more exotic career expectations ... Few had given much thought to settling down. Older generations had had more uniform and less adventurous aspirations when they were young'. Therefore, with such hopes to realise, retirement is probably the last issue on some people's minds. Of those who said it was important, a widespread theme was the acceptance that the state pension would either be non-existent or so small that it worried people into having to save for the future. As one person stated, 'I don't want to retire worrying about a £5 bill for electricity or heating [so] I am thinking about [retirement]; it's there in the back of my head' (Marilyn, teaching assistant). Nevertheless, what was clear from the findings is that for some this attitude is clearly a hope as current responsibilities, debts and low pay were all cited as reasons why saving is not possible now and even for the future. Research findings in this study show that the recurrent attitude towards saving is responsible and positive. (The reality and the opportunity to do so will be discussed in the next chapter.)

Significantly, the message that the state in the future will do no more than provide a very frugal pension is one that has clearly filtered through the psyche of some respondents. Debates such as that of the demographic 'time-bomb' or the pensions 'crisis' rhetoric, has given the state justification to reduce its role in the provision of a pension, which it plans to do so by 2050 (See DSS, 1998, Cm. 4179, ch.4 para.18). Yet as Street and Ginn (2001, p.35) stated, 'the dependency ratios are crude measures of the 'productive' and the 'dependent' population. … Important factors such as rising women's employment, the rate of pensioners' employment, and the extent of unemployment and early exit from the labour force are ignored in calculating old-age dependency ratio'. This debate is exaggerated in the media in order to promote neo-liberal ideas, which seek to promote the privatisation of pensions (see *op. cit.*, p.36).

The effect of the media is particularly interesting when trying to explain the attitude the respondents had towards what were then the current schemes (pre-2003) the Basic State Pension (BSP), the State Earnings Related Pension Scheme (SERPS), the Personal Pension (PP) and the Occupational Pensions Scheme (OPS). The respondents were asked to give their views on each of these pension schemes in turn, namely, were they seen negatively, positively or were they unaffected by the schemes? A minority said they were positive about all the schemes. One person felt that the state pensions would give you a better return but admitted she did not know enough about the schemes to really give an opinion (Floella, catering assistant). This is obviously a problem of awareness that will be addressed later in this chapter. A further minority simply said they did not trust pensions. One respondent said that they switched-off as soon as pensions are mentioned in the media, 'I have this attitude, which is quite rebellious. I don't know what it is, it maybe that you have this belief in your head that if you rebel against pensions you're rebelling against the system' (Syed, landscaper). The respondent then went on to say that he did not trust pensions because 'there had been examples where pensions have been real disasters for people investing in them' (*ibid.*) Importantly, when asked about the BSP, he was positive about it. So this rebellion appears to be against the financial industry as opposed to state run pension schemes. But another person, who said that they did not trust pensions, remarked, 'I think it's a cultural attitude, because who wants to live on the state pension, it's not enough money and I don't want to work or save my money [for] £50-£100 per week' (Katie, computer help-desk assistant). A study by Neary and Nesbitt (2001) showed that some cultures rejected pensions, preferring to rely on intergenerational support. (This will be discussed further in the following chapter.)

Such examples show that pensions are seen to give a poor return. This criticism was particularly aimed at the BSP as some said they had a negative view of it because it was insufficient. However, many believed the BSP to be a good idea. As one person stated, 'the fact that you sense, even rumour has it, there has been a National Insurance bubble that's been currently managed, the government tends to be quite a safe bet and that it's at least some form of guaranteed income' (Mark, assistant retail manager). It is this positive attitude that is of interest because despite negative media coverage and government rhetoric that the state will be unable to look after people in the future, clearly the respondents were positive about the BSP as a concept. Thus there is support for the state to play a role in pension provision.

However, when asked about SERPS, the state second tier pension, designed to top up the BSP for those earning above the Lower Earnings Level (LEL), most had not heard of it so were unaffected. The few that were positive about it said this was because it was a state pension; although in a couple of instances SERPS was thought to be the public sector OPS. But as one person stated, 'I am strong believer in the state. There seems to be more guaranteed with the state if they do it. I don't know if that's true' (Syed, landscaper). In only rare cases was SERPS seen negatively, as one person said, 'all I know is that they've phased it out so it's obviously not that good' (Marilyn, teaching assistant). Therefore, the important issue with SERPS is the respondents' poor understanding, which led to misunderstanding and indifference. This is the result of poor media coverage that will be addressed later in the chapter.

In the case of the PP, some said that they were either unaffected or did not know enough about it to comment. Some had a positive view about the PP; this included flexibility because they were transferable from job to job, whilst choice was also considered a positive feature. As one person suggested, 'I think it's an alternative and again anything that gives people choice ... is a good thing' (John, nursing assistant). Although it is true to say that the PP is flexible and another option, it has been introduced to the detriment of the state pension, which has been devalued. Moreover, the Defined Benefit (DB) OPS is now in decline (see Trade Unions Congress (TUC), 2002, March, pp.2-3). The TUC, in a briefing document, has shown that the employees that have been worst hit by this decline have been those in low paid sectors, such as hotels and restaurants, community, social and personal services (TUC, 2004, 30th May).

Therefore, the benefits of the PP, which has shifted responsibility onto the employee, which for most on low paid will lead to 'misselling', is at best ambiguous.

However, many were negative about the PP. One person who had taken out a PP said 'I think that they're not that good ... they take too much out in administration charges, especially early on when you start paying' (Marius, caretaker). The argument that the PP is front-loaded and that commission charges are high, especially for those on low pay, was addressed by Blackburn. He argued that 'those on average or below average earnings, paying tax at the 23% or less rate, have far less incentive to invest in a personal pension plan. The smaller plans of the lower paid will be more heavily eroded by commission and charges than the larger savings pots of higher earners' (Blackburn, 2004, p.6). Another person said 'they're a rip-off ...my husband ended his company pension to put into a [PP] and the pension is worth very little compared to what it would have been worth if he had left it with the company' (Eileen, retail sales advisor). This experience was at the height of pension 'misselling' (1988-1994) where many people in good OPS were encouraged to take out a PP (see R. Jones, 2000, The Guardian, 2nd December, 2000). Such examples highlight the risk involved when taking out a PP and this was expressed by a few, from first hand experience, as their reason for a negative view towards the PP. They were particularly aware of the volatility of the market in which the fund is invested and had heard in the media of people who have suffered in the past.

The pension about which the respondents' opinions were most definite was the OPS, many saying they saw it positively. Only a few expressed a negative view with most seeing it as a perk, especially because of employer contributions. Significantly, as will be explained in the next chapter, many had been in an OPS and this positive view was based on past and present experience. As one person said, 'I think they [are] a good idea but most companies are trying to kill them off ... It's just a shame the pension system is in such a mess at the moment' (Frank, caretaker). Another said 'they're an excellent product if you are fortunate enough to be in one ... without a doubt it's an employment plus' (David, carer). Interestingly, these statements, although positive about the OPS, draw out two issues of concern: first is the decline in the DB OPS, second, that the coverage of the OPS is limited, especially outside the public sector.

On the negative side, one person said 'they sound good but you can feel trapped in a job' (Marilyn, teaching assistant). Whilst another said, 'I'm dead against company private pensions 'cause I don't get anything out of them.... They are so hard to keep up with ... you don't know if you going to be in that job tomorrow. The way things are going with work you're never secure [and] you can't keep transferring, swapping money, job after job because that annoys you' (Lorena, catering assistant). These again are significant criticisms that have been much discussed and are concerned with the flexible labour market that particularly affect the low paid's access to an OPS and, therefore, the difficulty of transferring a pension scheme.

After addressing attitudes towards what were the current pension policies at the time (pre 2003), the respondents were then asked who should have the greatest role in pension provision. Contrary to government policy, most said the state should have the greatest role, although some felt the individual should be responsible and few suggested that this should be the role of the employer.

In the case of those who supported the role of the state, one person said, 'it should be the state's role to take responsibility for their citizens; I think too much is going over to the private sector and it creates too many inequalities in society' (Valerie, language centre assistant). Interestingly, some felt the BSP needed improving, a widely supported policy (see Ginn and Arber, 2001, p.64) that underpins the campaign of organisations such as the National Pensioners Convention. Still a few respondents believed that affordability was a major concern, therefore, agreeing with the government line, suggesting that neo-liberal rhetoric is having some influence on the public. The claim that an improved BSP is unaffordable has been contested, as Davies *et al* (2003, p.52) state, 'a proper sharing between the economically active and pensioners of the long-term growth in national prosperity, as presently projected, is entirely feasible and will finance both an adequate BSP linked to average earnings and an earnings-related supplement'. Some respondents simply felt the state was not taking its role seriously enough, '£10 per day[18] is just not enough, especially in London' (Gary, enquiry officer) whereas another suggested that 'there should be a Minister of Senior Citizens' (Deborah, cleaner). In rare cases it was suggested that if the government could afford the war in Iraq then it could afford a decent pension. As one person stated, 'the state should concentrate internally rather than externally. They can spend billions sending troops around the world but they should spend that here' James, estate agent negotiator).

Nevertheless, the government still argues that the issue of affordability has prevented them from raising the BSP, so it was interesting to ask if people would pay extra NICs or tax to reinstate the current BSP back to its previous level. The dominant opinion

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[18] The BSP was £75.50 per week for a single person in April 2002

was that they would, although some of these said only if this was a guaranteed arrangement. Others just said they would not pay extra because they did not trust the state. As one person said, 'I don't trust the state as different governments at different times have changed things' (Vito, learning mentor). Another said 'none of them that have got in have sorted this pension issue out, and now it's being messed with, end of story. They don't want you to know about it 'let's just leave it as a big grey area'' (Glen, computer assistant). This debate is of particular interest because although a few accepted the problem of affordability put forward by the government, others are clearly guarded about its motives.

However, some believed the individual should take greater responsibility when saving for retirement. One person simply accepted the government position without question (which promoted an increased individual role in pension provision), saying, 'the individual needs to take up more responsibility and be aware to provide their own pension as it is too costly for the state' (Maxwell, learning support assistant). Another person said, 'you've got to look after yourself because the state pension is not enough' (Marius, caretaker). This comment again accepts the *status-quo*, and with the intention of the government to run down the BSP, could be seen as a responsible attitude to have. But it can also be seen as the 'stick' effect as, through the fear of poverty, people are forced to make provisions for themselves in retirement. But for the low paid it is difficult to put into practice as highlighted by one respondent when she said, 'you should be able to look after yourself, but then having said that I know I won't be in a position to. So I've contradicted my own feelings' (Emma, warehouse operative and cleaner).

The findings about the role of the employers were interesting as only a few respondents believed they should have the most significant role in providing a pension. Here one respondent believed the employer should have such a role, and stated, 'I definitely say your employer. It should be a product of the job, remuneration of work / labour, of your loyalty; it should be a way that your employer identifies all the good work you've done and the time you've done' (David, carer). Others felt differently, despite the majority of respondents having been in or currently in an OPS. In one case a respondent said, 'I always found it amazing that they did, so perhaps the answer is that they shouldn't be compelled' (Anne, bookseller). Another said, 'I'm not sure whether it's their job really, but I can see the advantage to the employer because it would produce loyalty' (Robert, caretaker). Whereas one other said, 'I think that depends on what business you are in ... I think the public sector should pay some' but when asked about the employer's role they believed this should be optional (John, nursing assistant). Here it is interesting to find that after many years of pro-business government policies some respondents have a sympathetic view towards the employer and believe that at least they should have a choice when contributing towards their employees' pensions.

However, when the respondents were asked if they thought employers should be compelled to contribute towards their employees' pensions, some said yes without question. One respondent said, 'they should show gratitude and be compelled to pay at least more than the employee' (Anthony, security officer). Others said some companies should be compelled but not all: a typical response here was, 'I think sometimes for a bigger company it's a bit easier, but for a small company I think employers would get into financial difficulties' (Floella, carer). Still few felt that the employer should act as advisors and not be compelled to contribute. One person said , 'it would be a nice idea if the employer would contribute but I doubt it would be affordable for many, so it's unlikely you could force them to pay' (Maxwell, learning support assistant). Interestingly, whilst debates compelling employees to contribute have been ongoing, such debates compelling employers to contribute have been conspicuous by their absence, confirming the neo-liberal policy approach that the government is taking: shifting the responsibility for saving onto the employee.

To date the Government has resisted the idea of making contributions into a private sector second-tier pension compulsory for employers. As Guha *et al* stated, 'some Trade Unions - which favour compulsory employer contributions – were deeply cynical about Adair Turner's appointment [to head the Pensions Commission, designed to review the current voluntaristic approach]. The CBI opposes compulsion and John Edmonds, the General Secretary of the GMB union said that to 'appoint a former head of the CBI to a review on compulsory employer contributions is like putting the fox in charge of the hen house' (Financial Times, 18th December, 2003, p.1).

Therefore, it was interesting to find out how the respondents felt about compulsion on the individual. Many said they would be against any further compulsion than that which currently existed. In fact a few were intrigued as to how the government would implement this. One respondent said, 'well I don't see how they are going to get blood out of a stone, to be quite honest ... I would be contributing at the expense of something else, so something else would have to go ... I'd be robbing Peter to pay Paul' (Emma, warehouse operative / cleaner). Others just said they were against it 'as it was just sorting out the government's mess-ups' (Julius, computer assistant), whereas another saw it as a 'cop-out' (David, carer). But it was the issues connected with choice that had the greatest negative impact. One person said, 'I would be vehemently against anybody telling me how to invest my money' (Geoff, driver).

But importantly a few accepted compulsion if this were tied in with a guaranteed pension, with a further few favouring compulsion if it was a state pension. One person simply said, 'I wouldn't mind if it was guaranteed and a decent pension' (Floella, carer). Another said, 'fair enough if at the end of the day you get what they say you would; if they say no it didn't perform I wouldn't have any confidence' (Yvonne, library shelver). Significantly, this guarantee is not the case with the SHP, the government's new private MPS. Still again one person said they may have to make the SHP compulsory because he had seen in the press many articles discussing the demographic 'time bomb' and said 'something drastic to my mind has to be done for us to take responsibility and the state as well, to sort out what going to happen in our old age … unless again, and society moves on and we become this utopian world where we share everything we'll have to do something like that – I think that's my initial reaction' (Maxwell, learning support assistant). This shows an acceptance of the dependency ratio theory that is often uncritically discussed in the media.

The respondents were then asked for their views on the new proposals: the MIG (now the Pension Credit), the S2P, the SHP and increased incentives to defer retirement (designed to encourage people to work until they are 70). Many were against the concept of a MIG (now the Pension Credit), a means-tested pension set at a level of

£102.10 p.w.[19]. The criticisms were that it would be intrusive, demoralising and discriminatory; whereas others felt if you paid towards a pension through your NICs you should get a decent pension in any case. For example, one man said, 'I think it's wrong. If people have worked all their lives they're entitled to a decent way of life: means testing is going back to the 'Dark Age' as far as I'm concerned.... I think it's bad news, I really do' (Frank, caretaker). However some supported means testing and believed that it targeted the poorest, with a few saying if they were well off in retirement they would not want any money from the state. In one case a person remarked, 'it's a good idea, yes, that's the social side of me. Some people are experiencing hardship and are more reliant on the state pension and there are others where to them it is literally petty cash' (Mark, assistant retail manager). Interestingly, evidence shows that the BSP has been a major source of retirement income for people receiving up to average adult earnings (NAPF, 2002, ch.2., para.2.2). Therefore, the idea that a means tested alternative will target only the poorest in society appears incorrect as it is set close to the level that the BSP would have been if the index link to earnings had not been removed. Thus reliance on means testing in the future will affect those considered today as middle income earners. As one respondent said, 'I like means testing because it targets those that need it most', but admitted that this could be 90% of the population (Emma, warehouse operative / cleaner). This is an obvious exaggeration but future projections on pensions show that (as not all pensions are inflation linked in retirement) many will fall below the means tested level (see Rake *et al*, 2000, p.313).

[19] April 2003

A criticism often cited against means testing has been that many are too proud to claim it or feel that the complex nature and intrusiveness puts them off. When asked this question, many said they would be comfortable claiming it while a few said they would not. If people have become more comfortable in claiming means tested benefits, which this research cannot prove, it may be that a culture of means tested benefits has made people more resistant to the stigma attached to claiming such benefits than previously existed.

Finally, respondents were asked to give their view on the S2P and the SHP and the increased incentives to defer retirement. Here most people were unable to give their view on the S2P and SHP because they had not heard of these proposals. In the case of the SHP, this possibly could explain the actual low take-up rate experienced by the target group (no one in this research was in a SHP); this will be addressed in the next section. No respondent in this survey could give an informed view on the S2P, with only a few able to say a little about the SHP. One respondent did not like it because they had someone visit them at their workplace explaining the SHP and commented, 'I wasn't very happy with it. I don't think they could guarantee security' (Floella, carer). This showed that this person was aware of the risk involved with the SHP.

In the case of the new deferment proposal[20], one person simply said, 'the idea is rubbish' (David, carer): he did not believe that people should work beyond the current

[20] A single person who has built up a state pension (BSP + SERPS &/or S2P) of £100 a week can currently increase their pension by 7.5 % for each year deferred. This will increase the pension after five years by £37 per week (£137 per week). The Government will increase this rate to 10.4%. This after five years of deferral will increase a £100 pension to £152 a week (an increase of £52 per week).Alternatively, a lump sum can be taken. This would be a one-off payment of around £20,000 as well as the pension of £100 a week.

retirement age as life is not all about work. Others were concerned that it would be made compulsory, 'government policies often start out as voluntary but become compulsory; I would be concerned with that once they got it in they may change it' (Geoff, driver). Raising the retirement age to 70 has recently been given consideration by policy makers. Some believed it should be flexible, but said people would have to be healthy to continue working to 70, whist one person believed that the age discrimination experienced in the workforce needs to be addressed otherwise people may not be able to defer retirement (Mark, retail assistant manager). However, some said they would possibly consider deferment: this will be discussed in the next chapter which addresses strategies that the low paid are taking or likely to take.

Overall the attitudes found in this research were positive towards saving and the importance of saving for retirement. In some cases this was an influence of parental behaviour but increased responsibilities and life experience made people more aware of the need to save (although it was found not all experiences produce a positive attitude towards saving). This was confirmed by the intention to save more in the future and, contrary to popular opinion, some people have always had a positive attitude towards saving and always when possible put money aside to save for important things or events. Saving for retirement was considered important. This view was strengthened by the fears that the state will not be able to support people in retirement. However, as the research findings indicated, having a positive attitude towards saving is frequently unrelated to ability to save, especially the likelihood that a person is able to save enough to look after themselves during their retirement.

Significantly, the findings showed the importance of media coverage and that experiences of pension schemes shaped people's attitudes towards them. In the case of the BSP, there were mixed views. Many were positive about it as a concept but some were negative because they believed it insufficient. With SERPS many had not even heard of it. However, some disliked the PP. For some this was both linked to personal experiences and of hearing of others having bad experiences in such a scheme. A few did see it as a flexible alternative. The most popular scheme was the OPS: many respondents had been in one of these and were generally positive about it - it was often seen as a perk of the job.

When asked who should have the greatest role to provide a pension many suggested the state, with some saying that the state was avoiding its responsibility. On the few occasions when respondents maintained that individuals should have the greatest responsibility, it was admitted by one respondent that in reality they could not provide for themselves, emphasising the problem concerning the reallocation of risk. Interestingly, the employer was least expected to provide a pension: when asked should they be compelled to contribute towards a second-tier pension, some believed they should with others arguing that this should be only with exceptions. Yet what was clear was that many were against compulsion on the individual to pay for a second-tier pension, seeing this as 'passing the buck' for government mistakes, although a few said they would not mind if it was a state pension that was guaranteed.

Labour introduced the MIG (now the Pension Credit) to compensate for a declining BSP but this is means tested. Many respondents did not like means testing seeing it as a backward step with some believing that if you have paid for something then you should receive it. Some, however, believed that means testing targeted the poor and liked it. Still despite the criticisms most respondents in this study said they would have no problems claiming means tested benefits.

On other proposals such as the S2P and the SHP, there were few views given because of lack of awareness, although in a few cases the SHP was seen negatively. In the case of the changes to the deferment rules, some believed this to be good idea if people are able or want to carry on working. Others were concerned that this may start out as voluntary but soon be made compulsory.

Awareness of the low paid on current pension schemes

So far in this chapter we have looked at the opinions that respondents had towards the different pension schemes and how this might affect choice. The government has stated, 'there are still too many people who, because of a lack of understandable and trusted information, do not engage with the choices they have, and, as a consequence, make no choice at all. This is a very high-risk approach. We believe the public will be better served by a more fail-safe system where people do not cut themselves out of a pension scheme by inertia alone' (DWP, 2004, ch.2, p.13). We will now examine respondents' knowledge of the different schemes. Pension schemes are notably complex but are an important long term investment. Therefore, it is important to find out if the respondents are aware of how the schemes operate and, importantly, with a policy change towards private MPS, aware of the risk reallocation: are they in a position to make informed choices?

Firstly, knowledge on the then four current schemes (pre 2003) were examined: the BSP, SERPS, the PP and the OPS. With the BSP, most were aware that this was paid for through National Insurance Contributions (NICs) and is therefore paid for out of their earnings: however, a few thought this was paid for via income tax. This is an interesting issue, as the line between what is paid for by tax and NICs has become blurred in terms of popular perceptions of government policies. As Hills (2004, p.354) stated, 'given the imperfections of the [National Insurance] system, [it is] close to saying that the system is a myth'. But importantly, NICs are seen more favourably than tax so it is 'a useful myth for the population to believe in' (*ibid.*). Many people were aware that the BSP was based on a lifetime of contributions and that although the pension was flat-rate this depended on the number of contributions: less than the full NICs would result in a reduced state pension. However, only a few showed knowledge on the BSP beyond this level. One person knew that the employer also contributed towards the BSP (Gary, enquiry officer), whilst another said, 'the thinking behind National Insurance is that part of it is supposed to go towards your state pension, that's my understanding. I appreciate it's a bit of rob Peter to pay Paul situation sometimes' (Mark, retail assistant manager). Another mentioned that the shortfalls of NICs could be made-up (Julius, help desk computer assistant). These are voluntary contributions but a person can only make-up any shortfall in NICs experienced in the last 5 years, beyond this, shortfalls remain on the NICs record. But no one was aware or mentioned that it was a pay as you go (PAYGO) scheme, although such technical knowledge may be considered superfluous. When asked what was the current value of the BSP for either a single person or a couple, some were within £5 - £7 of the actual value whilst many were not. Here there was an even split between those that had underestimated or overestimated the level of the BSP.

SERPS was either very poorly understood or in many cases unknown: only rarely did someone have an adequate knowledge of the scheme. Those who were aware said that it was state pension that was paid for through NICs on higher earnings and was an addition to the BSP. No one knew how SERPS was funded or how the benefit was calculated and hence its value. A few had just heard of it based on the expression 'contracting out of SERPS'. A few also believed it to be the public sector OPS. Clearly, the neo-liberal policies of the last Conservative government, which sought to promote the private sector PP at the expense of SERPS, by devaluing it (see DHSS, 1985, p.5), achieved their objective. Meanwhile, the Labour government has carried on with this policy: promoting the private sector SHP as an alternative to SERPS. This is a reversal of previous policy where Labour had promised in 1992, '[o]ur new National Pensions Plan, building on the State Earnings Related Pension Scheme, will offer people now in work a pension based on their 20 best years' earnings. Those who are self-employed will also be able to join. Occupational and personal pension schemes will have to guarantee a minimum pension before they can contract out, and guarantee equal treatment for men and women' (The Labour Party, 1992, Election Manifesto). This shift in policy has confirmed Labour's intent to transfer the risk onto the individual. However, this reallocation of risk was not well understood by the respondents.

The PP was better understood with some showing a basic understanding of the scheme; the majority of these were aware that the PP was a risk, that the funds were invested in stocks and shares and in some cases it relying on the individual contributions[21]. As previously discussed some were aware of the risks involved either from first hand experience or that of others. Others either had poor or no knowledge of the PP. One person said, '[that] you contribute on a regular basis to the pension, which itself creates a fund. The fund is managed and then there is a payout based on an income. … Whether it's guaranteed or not is another question' (Mark, retail assistant manager). This description is closer to the OPS rather than the PP. Another person who had formerly contributed towards a PP said he believed it to be a 'rock solid' investment. When they were told how a PP was financed and paid out he said, 'oh, right! I didn't know that, that's pretty crucial; funny enough my financial advisor didn't tell me that' (Maxwell, learning support assistant). Thus the findings indicated that although some were aware of some elements of risk involved, most were not: only in one case did a respondent mention the administration cost. As Blackburn (2004, p.6.) noted, 'even the stakeholder charge of 1% of the pot annually - widely regarded as too low by the financial industry - will reduce the eventual pot by about 20% over forty years'. Moreover, only a few mentioned that the employer did not have to contribute towards a PP, whilst only one person mentioned the importance of fund management and its link to the success of the pot (David, carer). Therefore, again there is widespread evidence that the shift in risk allocation is not fully understood.

As will be explained in the next chapter many of the respondents have been in an OPS at sometime in their lives and this may be related to many respondents having a basic knowledge of the OPS. Despite this, only rarely could knowledge be regarded as adequate. Knowledge for the participants seemed restricted to knowing that both they and the employer contributed towards the pension and that these contributions were

[21] NB: PPs for those in employment are financed via the NI Contracted out rebate

linked to earnings; most believed that their employer either paid the same or more. But confusion existed with how the fund was invested and how this differed from a PP. A few believed the fund to be invested into the company itself rather than in other stocks and shares. One person believed that the 'OPS were much better than the PP because in the PP you are the only contributor' (Eileen, bookshop sales advisor). Another person said, 'it's a pension you paid into and got something back without the risk' (Sheryl, youth and community worker). As shown in the earlier part of the chapter, the OPS was viewed positively but many did not know how an OPS was calculated on retirement: few were aware that this was linked to a percentage of earnings or final salary (assuming it was a defined benefit (DB) pension). Only one person, who had previously worked in the City, was aware that the risk was shared by the employer (David, carer). So although some were aware of the investment risk concerned with the PP, it was clear that many could not quite distinguish how this differed from an OPS, although the latter were viewed as being safer. This is particularly important, especially now employers are moving towards defined contribution (DC) pension, which shifts the responsibility back onto the individual. So there could be a situation where this trust in the DB OPS is misplaced, although it could be argued that a DC OPS with employer contributions is better than a PP with little or no employer contributions. However, '[e]mployers often used to contribute 12%-16% of salary to DB schemes but usually opt for a much more modest 3-6% for today's DC schemes. DC schemes place the market risk on the employee not the employer' (Blackburn, 2004, p.5).

When the respondents were asked how they felt about their knowledge on the BSP, SERPS, PP and the OPS, few felt their knowledge was good with some saying it was adequate, whilst most said it was inadequate. When asked why they felt this to be the case, some said they were not really interested in pensions, whilst others commented that pensions were too complex. A few said that there was a lack of coverage in the media and thus did not really hear much about pensions. In rare cases, lack of time was a reason given for poor knowledge. This suggests that if people are to make informed choices, information on pensions needs to be made clearer and more widely available. One who believed their knowledge to be insufficient said, 'companies [need] to be more clearer, even now, although they've cleared things up a bit with the way they word things and use financial jargon, it still leaves me scratching my head' (Frank, caretaker). Another said, 'there needs to be more education about [pensions]... especially for women. [There needs to be] more information in health centres, hospitals, GPs etc.' (Katie, computer help desk assistant). However, one person believed this confusion was partly intended, 'I feel it's all a bit confusing and I think there has been a lot of changes. All sorts of savings have come and gone and I don't think people can keep up with it. And I think there's almost a conspiracy of keeping people in the dark to be honest with you; it just seems that way' (Yvonne, library shelver). Significantly, the government has posted information on the internet about pension schemes in order to broaden knowledge. Although some were aware of this information and some assumed it to be there, many did not know about it. In a few cases the respondents simply said that they didn't have access to an internet: one person stated 'some people can't even afford a computer. How would they know? [Information] on the TV or radio would be better' (Katie, computer help desk assistant).

The government has now replaced SERPS with the S2P but when asked, only a few stated that they had heard of the S2P and only one person had heard that it was replacing SERPS: another said they had heard that it was a pension for those on low income. Thus it appears that the S2P, in the same way as SERPS, was given a low profile, although, as previously argued, it is considered a safer option for the low paid than the SHP. This fits in with the aim to promote private sector pensions, whilst restricting the role of the state in pension provision. Despite the promotion of the SHP, and the fact that companies have had to promote SHP, unless offering an OPS, only some respondents claimed to know of it. But on closer scrutiny, only rarely could someone comment on the SHP and where they did, comments were critical. For example, one person said, 'I do know a bit about it but my view on it is that it's very poor; I believe that you don't get anything out of it, you put [into it] all your life and get hardly anything' (Lorena, catering assistant). These findings are supported by the low take-up of the SHP, where even employers failed to offer any pension. But significantly as the Norwich Union, stated, 'most stakeholder plans were unpopular because employers failed to make a contribution' (The Guardian, 2004, 27th March). Therefore, those that do hear about the SHP tend to have a negative view and as previously mentioned nobody in this survey had taken up a SHP.

In most cases, the respondents had been in a private pension scheme previously. This predominantly was an OPS. Hence it was interesting to discover if participation improved knowledge and did this help in understanding the reallocation of risk. Findings showed that some had fair to good knowledge of their schemes, whilst many had poor or minimal knowledge. In one case the respondent was unable to define if the pension was an OPS or a Group Personal Pension (GPP), saying the pension was set up in their workplace and certain that their employer did not contribute to the scheme (Beverley, catering assistant).

But for those in an OPS, knowledge was mostly limited to knowing the percentage or amount they contributed and the percentage their employer contributed, and some had a rough idea how much they had contributed in total to their OPS. Again only a few knew how the benefits of the OPS were calculated. Therefore, little superiority of knowledge was observed for those in an OPS compared with all respondents, this despite some saying they received helpful advice on joining their OPS. Moreover, a few said that they could not remember if they received any advice. One respondent said, 'I didn't pay attention to it. All we knew is that we had a good deal with the company. But our pension was [organised] through the union because the union all the time was our spokesman. It wasn't up to the individuals; it was just a collection of employees' (Anthony, security officer). Therefore, although advice may not have been readily available, or some did not take notice of the information provided, there was a confidence and a belief that the OPS was a good scheme. (This will be explained in more detail in the next chapter, which addresses the approach taken by the low paid towards saving and saving for retirement). Finally respondents were asked if they received good advice on leaving the scheme. Again some said they did not or did not remember, whilst a few stated that they did receive good advice. This included, in a few cases, an annual statement keeping the person informed of the value of their fund. Those that had received advice knew if they had frozen their OPS and that it could be transferred into compatible schemes. In a minority of cases, the pension was cashed in.

Significantly, some did not know what had happened to their previous OPS, although it would be assumed that it had been frozen.

Only a few had previously been in a PP. Here one respondent said, '[I received] plenty of advice, the [company] use to do home visits, so you could call them and they'd come around sit there and discuss it' (Robert, caretaker). This person was aware of the risks involved but the others were not and in one case the person said they thought the advice was quite helpful but then was told they had been ill-advised (Anne, bookseller). As previously discussed, some saw the PP as a risky proposition and this had deterred them from joining one.

Few of the respondents were currently contributing towards an OPS and only one was currently contributing towards a PP. This person was well aware of the risk involved and said, 'they give you models now and again based on what you've saved, but I don't think they can exactly tell you how much you're going to get. I'll save a certain amount and they'll buy an annuity with it and there are a lot of variables to how much I'm going to get but I know it's not going to be enough; that's all I know' (Marius, caretaker). Whereas those in an OPS said the advice they received was minimal: these were all public sector pensions. Again as with the respondents who had previously contributed to an OPS, knowledge was limited at best to the sum they contributed and their employer's contributions. But as one person stated, 'there's a telephone number for advice if needed and it's kept up-to-date annually' (Robert, caretaker). Still only one person said that the benefits were linked to earnings. Yet importantly, public sector pensions are viewed positively and one person stated, 'I know it is a government OPS, so it's a good pension, I assume it is match funded' (Gary, enquiries officer).

Conclusion

In summary, knowledge overall ranged from poor to adequate. Few were actually aware of the risks involved in the MPSs, such as the PP and the SHP but some were aware that the pension system was not functioning as they believed it should. Pension schemes are notoriously complex, and it could be argued that if the pension system paid out a decent pension based on NICs as the BSP and SERPS had in the past then maybe a person's awareness would be less important. For example, one person in a defined benefit OPS relied on the union to make decisions on his behalf and this served him well. But now the system is even more complex and at a time when risks have been reallocated onto the individual. Findings showed that the respondents were partly aware of this reallocation of risk either through first hand experience, or that of other people's experiences. But now the OPS, once believed to be the safest and best option, is being undermined. The result is some people simply show distrust either of the financial industry or the state itself and end up making no decision on pensions. In the past this would have been less of an issue because such indecision still left a low paid person with the BSP and entitlement to SERPS, which for someone earning £12,000 p.a. in 2003 would have paid out a pension around 49% of earnings: £114 p.w. before the changes to state pension were implemented (Davies *et al*, 2003, p.40). But today the current prediction is with the S2P replacement that in 40 years total state benefits will decline to 25% of career earnings (*op. cit.*, p.42). This is because the annual increase in the BSP is linked with prices rather than earnings. Thus the government now stresses the importance of making alternative provision, to do nothing is considered a high-risk approach: people need to make informed choices. For those without an OPS, and earning above £10,900 p.a. this would be the SHP. But the SHP offers no guarantees of employer contributions or how much it will pay out at retirement age and for many in the target group has been unpopular. While risks are never fully explained, people are meant to make informed choices. The fact that the SHP has not attracted many of its target group is a positive outcome, as Frank Field has suggested, because most would be better-off remaining in the S2P (Field, 2001, Guardian). Currently, the government is concerned that many are not saving enough for their futures. With the decline of employer contributions and state involvement, this is bound to be the case. But, as this research showed, the awareness of the risk reallocation needs addressing if people are to avoid the problems of 'misselling' experienced during the 1980s and the 1990s.

At the beginning of this chapter it was argued that the government believed a negative *attitude* towards saving and saving for retirement was a barrier to planning ahead but the empirical evidence found that the respondents had predominantly a sensible and thoughtful attitude. Moreover, poor *awareness* was seen as preventing people from making informed choices. Although several respondents had a basic understanding of some of the schemes, namely the BSP, PP and the OPS, particularly if they had been a member of the latter schemes, for the majority the detailed technical knowledge is lacking as would be expected and thus the full implications of the risk involved in most schemes were not understood. This led to, in some cases, distrust in the pension system *per se*. Yet people are not being fully informed about the risk reallocations that are involved: they are not stated in government literature. So rather than 'inertia' (a government term for doing nothing) being a high risk approach, it appears to be the best option for many.

Yet despite this distrust, there remains strong support for the state to provide a decent BSP. This coincides with findings identified by Page (1996, p.135), namely that, '[g]iven that the welfare state has been subjected to a concerted ideological onslaught in the 1980s one might have expected to witness a rapid erosion of public support for this institution but this does not appear to have occurred'.

However, it was also notable that some respondents felt that not all employers should be compelled to contribute towards a pension scheme, beyond what they do now via NICs, particularly the small businesses or those with a relatively low annual turnover. This would suggest that neo-liberal policy promoting entrepreneurial spirit amongst individuals has to some extent had an influence on some people's opinion.

The next chapter will investigate the question whether the low paid are in fact unable to put into practice much of their positive attitude towards saving and will address the limited opportunities that also act as barriers to saving and saving for retirement.

CHAPTER 6: EMPIRICAL RESEARCH: ANALYSING THE APPROACH AND ABILITY OF THE LOW PAID ON SAVING AND SAVING FOR RETIREMENT

The previous chapter examined the *attitudes* respondents had towards saving and saving for retirement. It also addressed their *awareness* of different pension schemes and the extent to which they were aware of the risk allocation involved. It concluded that in most cases the risk reallocation was not fully understood and that, with current pension policy promoting the private Stakeholder Pension (SHP), this could lead to 'misselling' amongst the target group interviewed in this research. The government believes that greater awareness will encourage people to make informed choices and that there is a need to change people's attitudes towards saving, because many are not putting enough aside for their retirement. Yet this research found that most people's attitudes towards saving were positive, only one regarding saving for retirement as unimportant. As explained in the previous chapter, 'the government believes given the right opportunity that people will plan ahead sensibly' (DWP, 2004, ch.1, p.6); and for those unable to join an Occupational Pension Scheme (OPS) the best approach is to take out the SHP. It states, '[w]e have already taken action to improve the options open to people. We have introduced stakeholder pension schemes in 2001 to make low-charge pensions widely available, ensuring that more of contributors' money goes into their pension pots and less on administrative charges' (DWP, 2004, ch.2, p.13).

This chapter will address the approaches respondents used towards saving generally and saving for retirement in particular and how this links in with the opportunities on offer.

Simply creating an option does not take into consideration people's ability to save for retirement. The aim of this chapter is to examine the approaches respondents are currently taking towards saving and saving for retirement. The chapter is set out in two parts. Firstly, it looks at the *approaches* that respondents are taking to saving. Secondly, it examines their *ability* to save and save for retirement. Thus the chapter will aim to answer the following research question, one which addresses the disparity between the respondents' positive attitude and their behaviour towards saving for retirement:

What strategies have been taken by the low paid to save or save for retirement and how far are they able to provide for themselves in retirement?

Approaches of the low paid towards saving and retirement

The investigation aimed to find out the approaches currently taken by respondents towards saving. A study by Rowlingson had concluded, 'most people are very present-centred, and give relatively little thought to either the future or the past. ... Those who do give some thought to the future are generally only looking ahead to the next year or so' (2000, p.37). Therefore, it was interesting to note whether people were more concerned with saving for something in the short term as opposed to their long term future, such as a pension. The research findings showed that some said they were not saving at present, with a further few saying they could not save at all, whilst half the respondents were currently saving. The extent to which they were saving for the future varied from a mother who had saved for a few months for her daughter's new bed (Sheryl, community worker) to one respondent who said they were saving for their children's education and futures (David, carer) whilst another was saving to move into a bigger house (Floella, carer). Moreover, a few were saving for an event taking place within a year's time span. For example, they were putting money aside for next year's holiday. A few said they were saving but not for anything in particular. It was also interesting to find that one person said they were saving to pay off a debt (John, nursing assistant) whilst another was doing so to pay off their mortgage (Anne, bookseller). This shows that saving can cover a variety of areas over different timescales. As Rowlingson (2000, p.38) stated, 'the future is multi-dimensional. It can mean one's own personal future, or the futures of one's children'. Moreover, the findings in my research showed that although some were saving for something in the long term, others were looking more towards the short term. The short term approach, Rowlingson suggested, can be partly explained by the insecurity felt about the future: 'those in insecure economic situations feel they have less control over their futures than others. The corollary of this is that some wealthy people can afford not to think about the future because they already have plans in motion which will take care of their future' (*ibid.*). Yet despite some respondents having a short term approach towards saving, the majority of the respondents were either not saving or could not save.

Moreover, Rowlingson (2000, p.19) argued, 'policy makers might believe that one way of increasing individual planning is to simply make people think more about the future'. Findings in my study showed that many had given saving for retirement either some or much thought, whilst some had only given little or no thought. One reason people gave for being concerned with retirement included getting older and realising the need to provide for themselves in the future. As one person stated, 'I am nearly forty now, so it would be prudent to think about the future, but specifically I haven't thought how I would do that' (Syed, landscaper). Another said, 'someone passed away in my family recently … and [it makes] you think life is too short [and] that you have to put something aside' (Lorena, catering assistant). Yet despite many having given thought towards saving for retirement, only a few are currently in either an OPS or a PP. One respondent said 'I've thought about [saving for retirement]. I was serious about signing up into a PP but I couldn't really afford the contributions; it would have stretched me, especially, when you have to buy things for your child: something had to give and it was the pension' (Sheryl, community worker). Another said, 'at this moment in time I don't have a pension. But when I was a manager of a unit in this company I did actually join their company pension scheme … But since I have had to take a step back, in the case of job and income, [so] that stopped' (Mark, retail assistant manager). This is supported by Rowlingson's findings that future orientation and forward planning is not straightforward (*ibid.*). Moreover, from the above examples, it was found that both the ability to save and availability of the OPS are issues of concern. Significantly, this study showed that most had previously been members of a pension scheme and these were predominantly public sector OPS. Thus from these findings policy makers need to go beyond future orientation as this is too simplistic and underplays the issues of availability and ability to contribute towards a pension.

As mentioned earlier, only a few of the respondents are currently in a pension scheme and only one person contributed towards a PP. Here the respondent said, 'I had a small company pension then I got made redundant from that firm and thought it would be a good idea to carry on, so I took out a PP' (Marius, caretaker). In the case of the other few that are in an OPS, the reason they were taken up was because they were considered to be good schemes. But as one person said, 'you didn't seem to get an option, which is fine because it's a local authority pension and it's better than taking out a PP' (Julius, helpdesk computer assistant). Whilst another said, 'well basically it was there, I was obviously going to get something out of it, God willing I reach 65, it's something to fall back on, it wasn't compulsory, it was voluntary, so I thought yeah! Go for it' (Frank, caretaker). Thus opportunity is clearly important when choosing an OPS: only one respondent not in an OPS had currently been offered a company pension and this was turned down because they were currently in an PP; government policy would be expecting others to choose the SHP.

Another point of interest is that policy assumes that the pension is the main strategy that people will adopt to save for retirement. Yet, many see property as the way forward. As one person stated, 'we have invested in another property, that is what we've really invested in … we chose property because we thought the returns [would be] better' (Floella, carer). Another person said, 'I don't believe in relying on the government to pay for your pension, I do believe that you should make your own way in life always; so my pension is my house' (Eileen, retail sales advisor). This is an interesting development as those that have been on the property ladder for some time and have seen their house prices rise considerably, now see it as a possible source of income for retirement. However, a recent report by the Pensions Policy Institute (PPI) has shown that for many, 'the level of equity available from most houses, while not insignificant, is still not enough in itself to bring retirement income for future pensioners up to the levels enjoyed by those retiring today' (PPI, 25th May 2004 p.22). But as one person said, 'property is something I would consider but [the government] will crack down on that because it's getting ridiculous: I mean I don't mind people buying and renting out, but rents are going up because first time buyers can't afford anything' (James, estate agent negotiator). This comment pointed out the potential problems and limits to relying on property.

Moreover, there is a confidence that property prices will continue to rise but complacency in a market is always a risk as economic downturns are unpredictable.

A few others said they would be relying on savings as an alternative to the pension, whilst a few said they may rely on stocks and shares. In rare cases, the respondents hoped that they would set up a business and that this would provide for their retirement. Thus the findings showed that not all will be relying on a pension. As one respondent stated, 'I hope to never apply for a [state] pension, I just want to be self-sufficient; I know there may be money there that I'm entitled to but I don't want to end up relying on it' (Marilyn, teaching assistant); significantly, this respondent's *hopes* to be self-reliant. However, with the shift of risk onto the individual, a self-reliant approach alone will not be enough whilst on current earnings. As a report by the Institute/Faculty Pension Provision Taskforce (2000, p.5) stated, 'many people on low income cannot afford to provide themselves with an income above the minimum income guarantee'.

Alternatively, it was interesting to find out if people were reliant on others for their retirement. In one case, a respondent with a minority ethnic background was relying on her children for intergenerational support and said, 'if you invest in [your] kids you get it back … If my family can't look after me then that's tough. In my culture that's what happens, unless it stops in my generation – who knows?' (Katie, help desk assistant). As has already been shown in previous research, different cultural backgrounds often have different approaches to saving for retirement (see Nesbitt and Neary, 2001). A minority in this research said they and their partner were relying on each other for financial support in their retirement; these were predominantly female participants. As one respondent said, 'I've been married for 20 years' - so she would be relying on her partner.

In the case of inheritance, no one said they were relying on it as financial support for retirement, but some did say they were likely to be left something from their parents and therefore it was a possibility. But as one person stated, 'my parents own a house and I would imagine that my sister and I would get a share of that I suppose ... but if they have to go into a [retirement] home ... the equity of the house would be eaten up looking after them' (Maxwell, learning support assistant). This itself is interesting because if many are relying property for their own retirement in the future, this will limit the intergenerational support that currently occurs between parents and their children as capital savings tied in with housing are increasingly used as part of retirement income for the older generation.

Pensions, therefore, are not seen by some as a significant source of income in retirement. However, for many in this research, the pension *will* be the main source of income if their current circumstances prevail. Still most do not have a private second-tier pension, which as explained in chapter 5 was linked to a lack of trust in the system, lack of opportunity in the case of the OPS and lack of awareness of the schemes that are available. However, planning for the future is complex and many people have to rely on others for financial advice. Thus it is important that this advice is impartial and appropriate for the respondent. When asked where the respondents would choose to go or who would they approach for pension advice, many said a financial advisor, some specifically saying an independent financial advisor. In one case an independent financial advisor recommended to a respondent that they join their company scheme (Robert, caretaker). But the extent to which financial advisors are independent is an important issue as many are tied in with financial institutions such as banks, building societies and insurance companies. For example, one respondent had a nephew who was a financial advisor and recommended that her husband leave his defined benefit (DB) OPS for a PP (Eileen, bookshop sales advisor); this could be an example of 'misselling'. Despite the confidence and overall positive opinion of the OPS, only a minority said they would seek advice from their employer. However, it is important to state that in the past, although many had been in an OPS (see below) and these were offered to them by their employer, employers with over 5 staff that do not offer an OPS are obliged to offer their employees a SHP. This may cause confusion to the employee as shown with one respondent who did not know if they were in an OPS or a Group Personal Pension (GPP) (Beverley, catering assistant). Further findings show that a few would seek advice from a friend or family member. But as stated above, a family member may have 'missold' one respondent a pension. This person said after their experience they would not speak to anybody again about pensions (Eileen, bookshop sales advisor). Nevertheless, a minority said they would carry out their own research. One respondent said, 'I would seek advice from different sources, find out who they are with and then seek independent advice' (Marilyn, teaching assistant). Thus findings show the difficulty involved when seeking independent pension advice. Moreover, although many in this research said they would approach the above sources, most were not currently approaching anybody because either they could not afford to contribute towards a pension scheme or in a few cases had a suspicion of the financial industry *per se*.

However, in the past many had been in an OPS, few in a PP and a few had been in both. Significantly, only one respondent had been in an OPS for more than 10 years; this was for 22 years. A few had been in an OPS for 5-10 years, whilst the majority had been in an OPS for 4 years or less. These findings support a key criticism of the OPS, which is they are not very flexible due to their limited portability (see James, 1984, pp.7-8) in a labour market where 'increasing employment insecurity [affect] the most disadvantaged groups' (Purcell *et al* 1999, p.1). This particularly affects the low paid for whom the 'low pay, no pay' cycle exacerbates the situation (see Dickens *et al*, 2000, p.106). There is also the concern that not only are DB OPS declining and being replaced by defined contribution (DC) OPS but there has been a decline in the OPS in sectors that are typically regarded as low paid. The greatest sectoral drops have affected hotels and restaurants, community, social and personal services and construction. The greatest decline in the DB OPS has been in the financial intermediation, wholesale and retail sectors (TUC 30th May 2004). The dominant reason that the OPS was taken up by respondents was because some felt that it was either a perk or it seemed like a good idea. A few took out an OPS because it was available, whilst a few were prompted by their employer and on rare occasions the respondent said they thought it compulsory. Most ended their OPS because they left the job in question. This was either because of redundancy, change of job or a company closing down. Yet in a single case, an OPS was ended because a company simply ended the scheme (Rosa, telesales), whilst in another case the respondent could not afford to contribute through financial difficulty (Glen, computer assistant). No one interviewed transferred their OPS, most have frozen them or in rare cases they had been cashed in, emphasising the problem of portability.

In the case of the PP only a minority had taken one out. One respondent took this out based on a recommendation from a financial advisor: this person had been recommended to them by a friend. At the time this respondent was managing a care home and was on a moderate to high income. Therefore, it could be argued that he was in a position to manage the risks involved in a PP but said they were never told about these risks (Maxwell, learning support assistant). This person stopped contributing towards this pension because he changed job and no longer could afford to contribute. This emphasises the risk involved with money purchase schemes as they do not take into consideration that earnings can also decline throughout a lifetime. In another case a person took out a PP because they were self-employed and it was the only option to them. They stopped contributing towards this scheme when an OPS was offered to them (Frank, caretaker), considering that this was a better alternative.

The respondents, where possible, were asked if they would consider the SHP. Only a few could answer this question: most of these said they would not consider taking out the SHP. One respondent said, 'certain things shouldn't be privatised I believe: certain things should remain under the hold of the government and that's one of them; that's people lives you're playing with' (James, estate agent negotiator). Whereas, a few said they would or might consider the SHP. Here one respondent said, 'yes I would consider it; it might just be the pension for me … [but] I need to know more about [it] to make an informed decision' (Maxwell, learning support assistant).

The new change to increase a deferred state pension (see DWP, 2002) was found to be very popular in this research with some saying they may consider deferring retirement. Only a minority said they would not consider the proposal. But important issues raised here were health, whilst others said it would have to remain voluntary. One person believed the current retirement age of 65 is outdated and that they should increase the working age to 70 (Vito, learning mentor). Another respondent said, 'it is tempting to defer retirement for extra cash but I do think it depends on the job you are doing at the time, whether you could keep working in that job or if you had enough' (Julius, computer helpdesk assistant). However, a minority said they would only consider it if they had no choice financially: 'at 65 I would like to be in a position to say that's my lot. I haven't got anything against the idea, it's sounds good in theory but 50 years is a long time to work' (Frank, caretaker)'. The same respondent also said, 'I wouldn't be allowed to [work until I'm 70] as the rules say at the moment once your 65 that's your lot'. There is also the problem of high unemployment rates amongst the over 55s. This, therefore, shows that such an option is currently not available to all in the workforce. The following section looks at the respondents' perceived and real financial security and how prepared they are for retirement.

Ability of the low paid to save and provide for their retirement

Firstly, the respondents were asked about their current perception of financial security: a few said they were more than satisfied, whilst a few said they felt quite secure. Yet some said they felt insecure with a few saying they were struggling. The reasons the respondents gave as to feeling secure included that they still had money left over from an inheritance or a redundancy payment. Whilst others, through well paid jobs in the past, had managed to invest in property and this gave them security. But significantly it is important to recognise the value of partnership in this research. Some were either married or living as a couple whereas other were single. Importantly although both groups expressed feelings of adequate financial security and feelings of high insecurity, most of those who felt insecure were single (living alone), whilst those feeling comfortable were mainly living as a couple or were married. This could be the result of a psychological security that a partnership might bring but in this research in a few cases security was based on either living with someone else who was also working and/or having secured property: most of these respondents were aged 40-50. One respondent stated that he felt financially secure 'because we both have jobs, which are admittedly not particularly well paid, but hopefully that will only be in the short term as opposed to the longer term, and we both have potential to earn more than we are earning at the moment. And the house that we are sitting in as things stand has earned a lot' (Maxwell, learning support assistant). Moreover, the majority of the 40-50 age group were buying their property, whilst the majority of those in the 30-39 age group were renting. This further emphasises the disparity that exists between those safely on the property ladder who have seen their house prices soar and those unable to afford to buy property.

Those who said they felt satisfied about their current financial status gave various reason including, one stating, '[this is] because I have a good financial record with the bank, they're prepared to lend me more money than I've ever borrowed in my life, whilst another said, 'I've got responsibilities at the moment and the job that I'm doing is hand to mouth … I had to adjust my lifestyle to this present employment' (Anthony, security officer). So as long as people are either able to obtain money or live within their means, they may feel quite comfortable. But still some felt that their financial situation was either not good or poor: one person simply said, 'my savings do not cover my borrowings' (Marius, caretaker) whilst another respondent said 'I've got a couple of debts that I'm struggling to pay off' (Vito, learning mentor). This led to some respondents feeling either lethargic or down, however others had learnt to be more optimistic. Further issues included working hours and having children: one respondent said, 'it's quite concerning, I have a teenage daughter, living in temporary accommodation and working part-time, so it's worrying ... I'm merely just existing' (Deborah, cleaner). Therefore, a range of issues may result in the low paid feeling insecure; nevertheless, one important issue is current employment security.

As discussed earlier, the current flexible labour market creates job insecurity, particularly for the low paid. However, when asked how secure they felt about their jobs, many said they felt secure, whilst some said they did not feel secure. For the former this led to their feeling positive, knowing that there was at least a job there for them. Yet others, although secure, said their wages were too low for what they needed in life and believed that they would not be in the job for much longer. One person said, 'I have two jobs that are very secure but they are [rubbish] jobs; therefore, I don't feel that great about [them]' (Geoff, driver). But overall job security did coincide with feeling comfortable and settled, even if a minority intended to move on. However, some did not feel secure with a few simply believing that no job is secure nowadays. For this group this caused anxiety and worry but again in a few cases the job was seen as temporary. In addition, a few felt insecure because they were in a temporary contract, one person said that their job is not at all secure, 'I mean this contract expires in June ... it's a nightmare' (Glen, computer assistant). Therefore, these findings show that that not all low paid work is insecure but for some their current job is only temporary. Importantly, the economy has been buoyant in recent years and in an economic downturn many of the jobs these respondents were in would be affected as many work in the service and retail sector, which rely on consumer spending.

This led to the question of how important current financial security was to people and how this influenced people's saving and saving for retirement. Feeling financially secure brought out various dimensions in people's lives. Some regarded it as offering psychological benefits, for example, feelings of well-being, independence, peace of mind, a less stressful and more relaxing life and self-confidence. Others viewed it as offering them the basic quality of life: you cannot live without money. The importance of financial security was also regarded as an age issue - the older one gets the more there is a need to be financially secure to prepare for the future, especially retirement. Past experience has also been an issue for those who have fallen on hard-times and they would hope to avoid those experiences in the future: this included debt and job loss. Mortgages are a concern for a minority at present. Yet few were worried about providing for their children, especially bringing them up and providing for their futures. There was also a minority who simply were worried about every day bills.

The findings have shown the impact financial security had on saving and saving for retirement, resulting in a few who said they were currently contributing towards a pension but the majority saying they were not saving, or saving for retirement at present. One person simply said, 'all my earnings go on the cost of living' (Marilyn, teaching assistant), another said, '[I] would not consider saving for retirement until I get a better paid job' (Vito, learning mentor). Interestingly, the current government attitude is that people who are not saving towards a pension are running a high risk strategy. Yet they also recognise that 'those with debts may choose to dedicate resources to paying these off rather than investing in a pension' (DWP, 2004, ch.2 p.14). It is this contradiction in government policy which insists that people should save for retirement when they cannot that is of interest. For example, a few respondents explicitly expressed the desire to save: one said 'if we ever have surplus money we would save, but our lifestyle doesn't necessarily allow that' (Yvonne, library shelver), whilst another said 'if I were in a full time job or a good job then I would be [participating] in a pension scheme' (Deborah, cleaner).

Furthermore, it was interesting to establish that it was not just about the ability to save but *opportunity* also as the majority of those currently in an OPS were not saving, whilst only one who was saving was currently in a pension scheme. Therefore, access to an OPS is more important than simply trying to shape people's attitude towards saving for their retirement, because even if people are low paid they will still put money aside from their earnings into an OPS, which as indicated in chapter 5 were viewed as positive and trusted. Importantly, most of the respondents at sometime had contributed towards an OPS when one was available to them. Moreover, Labour's SHP, the option if an OPS is unavailable, has yet to gain the public's attention or interest. This was borne out in the findings in this research, which found the minority of respondents who had heard of the SHP were discouraged from taking one out as it was deemed a risk. Still it is important to note that there were respondents who always tried to save but most of these had learnt to prioritise and were unable to save on a regular basis. A few said they were financially secure and were able to save if they wanted to.

Importantly, not all the respondents have always been in low paid work: some have been on medium income in the past, whilst in rare cases there have been high earners. This shows the complexity when defining the pattern of low paid employment. One person, for example, worked in the City for 26 years but moved on because of the burn-out experienced in this type of work (David, carer). Another person ran their own care home, which paid well, but the stress of the job prevented them from continuing (Maxwell, learning support assistant). Interestingly, many had worked for the public sector in the past at the time when cuts in public sector employment were made under the last Conservative government. Significantly, it was the majority of these respondents who had worked in the public sector during the mid to late 1980s and early 1990s that had been members of an OPS. Furthermore, a minority had worked for a telecommunications company that once had been publicly owned and although the company had been privatised they continued to offer the DB OPS. These respondents took voluntary redundancy because of the good package it offered, whereas another respondent worked for a large motor company and had a DB OPS for 22 years. The range of jobs that the respondents had carried out were extensive, ranging from a golf professional to an owner of a personal relations company. But predominantly the work was found to be in the tertiary sector, covering retail and wholesale, hotel and catering, personal and public service and health and care work and these sectors have been worst hit by the decline in the DB OPS (TUC, 2004, 30th May). This coupled with the reduction in public sector work thus offers a possible explanation why many respondents who were in an OPS scheme in the past are no longer members.

As previously discussed, another issue affecting the low pay are periods of unemployment. Most respondents had experienced unemployment at some point in their life, some experiencing a period of unemployment for over six months. But only a few said these were frequent experiences. Based on the 'low pay, no pay' cycle, this may be a little unexpected as some in this research said they have always managed to find work. But what the findings have shown is that for many, they have experienced a relative decline in wages with their replacement jobs. For example, when asked if their previous work paid more (relative to now) most said that at least sometime in the past they had a job that paid more.

The reasons given for leaving these jobs included: needing more security from a job; difficulty in travelling to work / relocation; long hours; stress; family commitments; raising a family; the job ending, moving onto another job; redundancy; wanting to go into education. Importantly, some of the respondents earned more in the past because they had simply worked longer hours. For example, one respondent said, 'when I worked for a security company this paid more but I had to give the job up because of the long hours, which interfered with my family commitments and the house suffered' (Beverley, catering assistant). Significantly, some had worked in sectors that had experienced cut backs over recent decades, including the manufacturing industry and public sector. One respondent said, 'I had earned more before but left the job with the [telecommunications company] because it became insecure' (Floella, carer). Others were able when younger to be more flexible with work and put in more overtime and in some cases worked abroad. However, as soon as they felt they needed to or wanted to settle down, some had to take a cut in wages. One person said, 'the travel industry paid more and working abroad was alright when I was young and single but as I got older it was not what I wanted to do. And when I came back to the UK to work in the travel industry it was not so well paid' (Maxwell, learning support assistant). Still the findings showed that some respondents had always been on the same basic wages as one respondent said, 'I've always been on relatively similar wages: definitely not earned more' (Emma, cleaner and warehouse operative).

Nonetheless, a key concern is the break in employment due to bringing up children or caring at home for a family member. With a pension system in which building up pension rights is based on employment in the labour market, namely a state pension that relies on NICs, an OPS that relies on earnings related employer and employee contributions and a PP that is deemed insufficient for those on low pay, there could be greater pressure on women to join the workforce when they may prefer to stay at home with their children during the early years of their development. Moreover, there has been an increase in the number of women bringing children up on their own without the support of a second wage. Those in higher paid employment may get offered incentives that help them continue work if they choose, such as with a brief maternity leave. But even if there are no incentives, high earnings will allow access to quality childcare facilities. For those in low paid employment, and particularly those bringing up a child on their own, such opportunities are rare. The result is that for many women the options are simply to take time out of employment or work part-time. And 'part-time work is generally associated with poorer working conditions, job insecurity and lack of fringe benefits as well as lower hourly pay' (Ginn *et al*, 2001, p.16). Studies have shown that such breaks or a transfer to part-time work has made it difficult for women to return to well paid employment because 'part-time work among women tends to be in the prime earning years between the ages 25-54, when opportunities for wage gains and advancements are highest' (*ibid.*).

In this research some people had spent time out of employment due to raising a family, all of them were women. When asked what effect raising a family had on their career ambitions, an equal distribution was found amongst those saying it was either negative, positive, had no effect or they had no career ambitions. For those regarding it as positive, one said 'I wouldn't have gone down the path of working for a play group if I hadn't had children' (Emma, warehouse operative and cleaner); this she sees as her future career. Another said, 'I think it motivated me to do something better with my life, knowing that I have a responsibility' (Rosa, telesales). One person suggested that they did not want to continue bar work, so having a child has helped her focus on her new career in community work (Sheryl, youth and community worker). For one person who said it had no effect, she said, 'it didn't really affect my ambitions because when I was younger I didn't have any such ambitions, not for going straight to the top, not really' (Eileen, bookshop sales advisor). Conversely, there were those who said it did have a negative effect and they had to put their career ambitions on hold. One said, '[it was negative] for a while, when I tried to get back into work I wanted to get back into care, and I had difficulty getting back into the job because people said I was out of touch with what is going on. They were not prepared to take me having a five year break in between, because they said things had changed' (Floella, carer). Another said, 'it's very negative at present, I have put my career ambitions on hold until my child goes to school. I would like to get into information technology' (Lorena, catering assistant).

When the above respondents, who were all mothers, were asked if they were able to find stable employment after raising a family, over half of them said they had and that this was full time work. However, currently less than half were working full-time. Therefore, other influences have to be assumed to be making a difference. But what was found is that those currently working part-time were either single or recently divorced. This confirms the difficulty mothers have when on low pay and single parents gaining access to full-time employment. Conversely, those currently in full time employment were married and therefore could rely on their partners for support. However, the introduction of the working families tax credit (WFTC) has encouraged families with children and single parents to move into full-time employment. Findings by the Inland Revenue (2003, p.5) showed that 'estimated take-up rates [of the WFTC] for couples [have been] substantially lower than those for lone parents – though take-up for both couples and lone parents has risen substantially between 2000-01 and 2001-2'. Hence, the WFTC may ease the above trend for mothers with children and single parents to stay at home as barriers to work are removed. Still it is important to recognise that other barriers exist for low paid workers such as insufficient qualifications and experience.

The response by the government to this has been to encourage people into further or higher education. However, to what extent this has actually improved people's employment opportunities is an interesting issue. Although some said they had not recently taken up further education or training to improve their employment opportunities, many respondents in this research said they had. This included the masters and bachelors degree, national vocational qualifications (NVQs), an Open University network standard in community development, diplomas in management and HNDs. When asked if they felt it had improved their employment status, some said it had and few believed it would, whilst some hoped that it would. Others were less positive about the influence of education, with a minority saying they did not know if it would improve their employment opportunities and a few said it had had no effect. Interestingly it was often found that a degree may give a respondent a opening but it was the vocational qualifications such as the NVQs that had the greatest impact on improving employment opportunity. For example, one respondent completed an NVQ 3 in care management and NVQ 3 and 4 in mental health nursing and because of this had just been promoted (Floella, carer). Another respondent who had completed a masters degree a few years back believed this did not improve their employment status. They believed that experience and training courses in their specific job area were required (Vito, learning mentor). Another respondent who had taken a degree said, 'at the moment I can't say it improved my employment status because the job I'm in now is paying less prior to university … I'm working in IT, my degree was not in IT but my background prior to coming to university was in IT. [Furthermore], 'since graduating I have had my longest period of unemployment' (Julius, helpdesk computer assistant). Therefore, these findings showed that education can have a positive effect, particularly, if training is in a specific field but there is no guarantee that education alone will improve employment status. However, there were those who chose not to improve their educational qualifications or were unable to take up education as an opportunity to improve their employment status. One person said that they had all the skills they needed for their current job (Eileen, bookshop sales advisor). But on a few occasions long hours prevented people from accessing training courses: one respondent said, 'I work unsociable hours, which makes it difficult to enrol on courses' (Robert, caretaker). Another said, 'well I wanted to do this course but my company would not give me the time off and I would have had to pay for it' (Beverley, catering assistant). Low paid work is often associated with unsociable hours and lacking fringe benefits that in this case may allow workers the time off to study or offer in-house training (see Purcell *et al*, 1999, p.43).

However, besides raising a family and lacking training opportunities many said other personal circumstances had impacted on their career path. These included: family issues such as splitting up or getting divorced; injuries; an unspent conviction; stress; choosing to go travelling; lack of finance to study; and lack of opportunity. Although many of these circumstances are not exclusive to the low paid, they are more likely to affect them as they are less likely to have financial backing to make alternative plans, namely, to afford education in order to change a career path. As previously mentioned, one respondent had been a high earner but had to change jobs because of stress and is now low paid (Maxwell, learning support assistant). But as noted earlier while this person had not managed to move out of low paid work, he was able to get onto the property ladder at the time, which made him feel secure, showing the importance of past financial security.

In this research, many respondents in the past had financial assets which they do not have now, whilst some said they had always been on the same level of income. For those who had previous assets, a few of these had had savings and shares that had been reduced; a few had had an inheritance that either had been spent or reduced; a few had redundancy money in the past; and a further few had other financial assets, such as an insurance policy that had been spent. When asked how financially secure the respondents felt in the past many said they were very secure or secure in the past compared to the present. Still some said they felt no different in the past by comparison to their current situation with only a few saying they felt worse in the past. Previous financial assets seemed very closely linked to this financial security. However, a few respondents said they had no previous financial assets but still felt financially secure in the past before responsibilities and debt came along, this despite being on the same financial level as currently. In a few cases, those who said they were secure in the past did not realise this at the time. One person who had received an inheritance and had now partly spent it said, 'I probably did not realise how secure I was; this is something I think about now' (Valerie, language centre assistant). Others who were financially secure felt good about life in the past, but one person implied that they had been complacent and, although they did not regret spending money on holidays, they believed they had wasted money on 'other things like taking cabs to work when it was only a five minute walk and silly things, and silly, silly things like that' (Sheryl, trainee youth and community worker). Another person said, '[in the past] I wouldn't have been classed as low paid … I felt good, I had the freedom to go on holiday' (Julius, helpdesk computer assistant). A few others felt financially secure because they were in better paid jobs in the past. A few women, now divorced with a child or children, had felt financially secure in the past when married.

However, some said they had always felt the same with reference to financial security. One person said, 'I don't remember feeling financially secure' (James, estate agent negotiator). Another said, 'I feel about the same as now really, it's always been a struggle … on a manual type of wage' (Marius, caretaker). Yet a few said they felt worse in the past: one married women who had property said, 'in the beginning of the 80s it was a bad time, so you do worry when there is a recession in the country' (Floella, carer): she was also very conscious that this could easily happen again and is relying on property for her pension. Another person said they were more financially stressed in the past, 'I use to feel the financial burden of owning a property …. It always felt that my money was going towards that. I initially owned a property with someone else and that person was not that financially secure either so we were together trying to keep things going' (Anne, bookseller).

Finally it was important to find out what are the respondents' ambitions or hopes for retirement and will this match up to their ability to save for a pension. The respondents were also asked if they would prefer a relaxed or an active retirement, the implication here being that increased activity will require more income. Only a few said they would want to relax. Most said they would want to remain active. Amongst this group, people have ambitions of living abroad, travelling and continuing or starting up a hobby. A few said they would not want to retire and would continue working. When asked about the income required for an individual in retirement, some said figures around £75-150 p.w.; some said £151-£200; whilst some said £225-£300. Interestingly, a few said they would like £300 plus. However, a few respondents did express a concern that they would neither have a sufficient income to carry out an active retirement or simply not have the health. This identifies the difficulty of planning ahead as ambitions or hopes for a specific retirement may not be realised because of insufficient income or health matters. Yet, currently, the MIG (now the Pension Credit) is £105.45 p.w. for a single person whilst the BSP is only £79.60 but by 2030 the BSP will only be worth by today's standards £50.00 p.w.. Thus the gap between desires and likely retirement income for many could be considerable. The respondents were told of this decline of the BSP and asked how they felt their future hopes and ambition would pan out.

Only a few said they would have sufficient income for their retirement and here only some were basing this on the assets they currently have. Whilst for others this was based on hopes and optimism: one person said, 'if my business [aims] go well and I can make other investments, yeah, [I will have sufficient income]' (Marilyn, teaching assistant). A few said they just could not answer the question. One person said, 'it doesn't bother me [that] I haven't saved anything [as long as] I have my good health' (Katie, helpdesk computer assistant). However, this person is relying on intergenerational support from her children during retirement, which as previously stated is regarded as a cultural norm. But many accepted that they would not have saved enough and although in a few cases this is based on their current situation projected into the future, many believed that the decline of the BSP would make it difficult for them to build up their required retirement income. As one person said, 'all I know is that my PP scheme by itself would not be enough [and with the decline in the BSP this] would be a massive decrease in my standard of living I would think' (Marius, caretaker). This was also felt by a respondent who was currently in an OPS (Frank, caretaker). Another person, also in an OPS, said, 'in an ideal world I would have been in that position to have saved money for the rainy day ... But in the true light of day having a family and knowing what the world has in store for me [will mean] that I'll probably never get around to saving any money' (Gary, enquiry officer). This comment summed up the difficulty that people have on low pay when dealing with competing demands.

These findings were confirmed when asking respondents how much they think they could contribute towards a pension at present. Some said they were unable to contribute anything, yet a few said they could possibly contribute £20-£49 per month, whereas a few said £50-£100 per month. A minority said they would like to contribute over £100 per month. One said, 'if I was earning something like £20,000 a year I'd probably save £100 per month' (Marilyn, teaching assistant). Findings showed that most believed this contribution would not be enough, with some saying they did not know. Only in rare cases did a respondent say they could contribute enough and that was based on higher projected earnings, which is an expectation rather than possibility. But findings showed that many people, given the right opportunity, and if they had the ability to save, would put aside for a pension, confirming the positive attitude that the respondents had towards saving.

However, the New Labour government has given a different meaning to opportunity. Opportunity rather than meaning an improved financial status for the low paid, (improving their purchasing power so that they can buy into financial products such as money purchase pension schemes) now means a greater 'choice' in a situation where in reality choice is limited.

Conclusion

This research has shown that the situation of those on low pay is not straightforward, many people are currently where they are today (i.e. low pay employment) through differing employment histories. Moreover, just as the past is complex for people so too is the future; and how people view the future is multi-dimensional. These findings have shown that there is a need to go beyond current policy thinking. Shaping future orientation to make people concentrate on saving for retirement overestimates a person's ability to save. In this research, many were not saving for retirement, especially via the pension route. Instead, some viewed their property as part of their retirement income. Yet for many the pension will be the major source of retirement income. But much advice on the subject can lead to 'misselling', and the OPS is on the decline, specifically in low paid employment. Moreover, those who were in an OPS in the past have been part of the cutbacks that were made in the manufacturing industry and public sector, leaving many without a trusted second-tier private pension. It is correct to say that the OPS are notably difficult to transfer (see James, 1984, p.7) and more needs to be done about this but the flexible alternative that does not offer both a guaranteed pension or a guarantee of employer contributions has not attracted much interest. However findings by Field (2001) and the Institute / Faculty Pension Provision Taskforce (2000) would not encourage this target group to take up the SHP as the pension is likely to fall below the current MIG (now the Pension Credit) level.

Some low paid people currently feel financially secure but these are those who have financial assets from the past. Yet, excluding property owners, many have seen these assets diminish as they try and survive on a low income, let alone having the ability to contribute towards a pension. Even some of those who have experienced low pay all their lives are feeling more insecure as they have increased responsibilities and debts to pay off. Importantly, financial security delivers the psychological benefits that enhance people's lives: a life with less worry and stress. The interviews showed that people are aware of the need to save for retirement and it was shown that when the OPS had wider availability, many respondents did join such a scheme, confirming that for many their attitudes, when given the opportunity, are 'responsible'. Nonetheless, some situations are exacerbated as a result of being low paid, such as unemployment, and many in this research having experienced a relative decline in earnings over time. Moreover it was found to be harder for single parents on low pay to remain in or obtain full–time employment as they need to find the time and financial support to care for their children, emphasising the issue of competing demands. Finally it was found that some respondents were aware that their hopes in retirement would be difficult to realise, especially as many were unable to currently contribute towards a decent second-tier pension. These interviews have shown that policy rather than creating an opportunity and encouraging people to save for their future has cutback one option, the OPS, whilst reducing the state alternative. Yet people are expected to handle this risk reallocation based on changing attitude alone. But as the findings here have shown, policy will need to focus on ability to contribute if it is to avoid poverty for a significant number in retirement.

CHAPTER 7: THE LOW PAID AND CURRENT PENSIONS POLICIES AND PROPOSALS

In recent years, the issues concerning pension provision have become headline news, not least because of the failure of the current pension system to deliver a decent pension to many in retirement. Recent retirees have seen their predicted personal pension (PP) incomes halved, whilst others have witnessed the collapse or closure of their occupational pension schemes (OPS) (see Pensions Management, 2003, 1st May). Such problems have affected middle-income earners as well as low paid workers. As Adair Turner, Chairman of the UK Pensions Commission stated in a recent lecture, 'a problem facing the UK is that [state pensions] are decreasing in generosity but private sources are not filling the gap. Worse than that, private pension savings are actually going down. This decline is occurring largely because employers are closing their defined benefit plans' (Turner, 2005). His statement highlights the questions: how to secure an adequate pension in retirement; and what are the respective roles of the state, employer and individual?

This chapter will examine current proposals and debates and the extent to which they tackle the problems facing the low paid. The chapter is divided into two sections. The first will identify key issues in current pension proposals from a number of different bodies and organisations and consider in particular how each perceive state involvement. The second section will assess the extent to which these proposals both address the issues and concerns of the low paid and their potential to redress current inequalities in pension provision.

Themes in current pension proposals

The proposals discussed in this section (see table 7.1) cover a wide spectrum of both organisations and views: from political parties; pressure groups; organisations that represent the business community; think tanks and a number of academics. It would be impossible to discuss all the pension proposals that have emanated from these sources over the last decade: thus those discussed have been selected on the basis that they represent a range of policy standpoints across the political spectrum.

Table 7.1: Current pension proposals

Proposer	Year	Title
Adam Smith Institute (ASI)[22]	2004	*Pensions Policy: How Government can get us saving again*
Association of British Insurers (ABI)	2003	*Better Pensions for all*
Robin Blackburn	2004	*A Rescue Plan for British Pensioners*
Neil Churchill and Michelle Mitchell	2005	*Labour's pension challenge: Building a progressive settlement*
Confederation of British Industry (CBI)[23]	2004	*CBI recommendations on pensions*
Conservative Party (2003)	2003	*Willets: Ways and means*
Bryn Davies, Hilary Land, Tony Lynes, Ken MacIntyre & Peter Townsend	2003	*Better Pensions: The state's responsibility*
Frank Field	2002	*Debating Pensions: Self-Interest, Citizenship and the Common Good*
Help the Aged	2005	*Pensions not pin money: Ensuring a decent retirement for all*
Institute of Public Policy Research (IPPR)	2004	*IPPR urges 'back to basics' on pensions*
Labour Party	2002	*Simplicity, security and choice: Working and saving for retirement*
Liberal Democrats	2004	*Dignity and Security in Retirement*
Michael Meacher	2005	*A three-point plan for pensions reform - and why it's achievable*
National Association of Pension Funds (NAPF)	2004	*Towards a Citizen's Pension*
National Pensioners Convention (NPC)	2002	*The Future of UK pensions and the role of the state*
New Economics Foundation (NEF)	2003	*People Pensions: New thinking for the 21st Century*
Trades Union Congress (TUC)	2005	*Pensions Commission Interim Report, Pensions: Challenges and Choices*

[22] This proposal was written on behalf of the ASI by A. Pickering (November 2004).
[23] See Guardian Unlimited 19th July 2004 for reference.

Some of the above proposals can be categorised as being pro-state left; Robin Blackburn, Bryn Davies *et al*, Churchill and Mitchell, Frank Field, Help the Aged, the IPPR, the Labour Party, the Liberal Democrats (in the case of social policy), Michael Meacher, NPC, NEF and the TUC. Others can be identified as pro-market right groups: the ASI, the ABI, the CBI, the Conservative Party and the NAPF.

Pro-state left and pro-market right positions on pension policy

In Chapter 1 two different positions on pension provision were identified; those which supported enhanced state provision and those which favoured an extended role for the market/private sector in this area of welfare. The former was generally held by those on the political left, the latter by those on the political right. For the pro-state left groups the key features of pensions policy were as follows:

- That there should be a compulsory Basic State Pension (BSP) set at the minimum level of income support and increased annually with earnings

- That there should be a compulsory state second pension, namely, the State Earnings Related Pension Scheme (SERPS)

- That both a BSP and a second-tier state scheme operate as a Pay As You Go (PAYGO) scheme, underpinned by National Insurance Contributions (NICs) paid for by the employer and the employee as well as the Treasury

- That there should be no resort to means testing

- That it is the state's role to support the pension system with a commitment to ensure that a sufficient level of Gross Domestic Product (GDP) is allocated to pensions

- That the private sector role in pensions provision should be complementary to that of the state

- That the retirement age should not be increased

Compiled from Davies et al (2003) IPPR (2004)

Pro-market right groups have traditionally favoured private and commercial provision and have supported the following features for pensions policy:

- That a BSP should be minimal and upgraded with prices

- That a state second pension should only provide for the poorest in society with means testing used to bring a pension up to the minimal income support level.

- That a second-tier pension should be predominantly private sector, initially provided by the employer but subsequently a funded money purchase scheme (MPS) in which the individual takes up the risk

- That the state's role should be reduced to a minimum, whilst the private sector role in pension provision should be increased

- That a private sector pension should be a voluntary pension

- That tax incentives and contracting out rebate should be used to encourage saving into a private pension scheme

- That simplification of the pension system as well as financial knowledge should be improved to help individuals make informed decisions

- That the retirement age may have to rise to reduce cost to the state

Compiled from ASI (2004); CBI (2004)

While current pension proposals can still be categorised on a pro-state left / pro market right continuum, each has experienced a number of significant changes from the original constructs. Discussion of the proposals listed in Table 7.1 will be organised around the 'pensions triangle' used by Ginn. This identifies the three key elements that are considered necessary if a working pensions policy is to be found:

1. Ensure adequate pension income for the poorest;
2. be affordable in the long term;
3. maintain incentives to save among the working population (2003, p.101).

The reason for selecting the 'pension triangle' as a tool for analysing and discussing the proposals is that it neatly highlights key differences in core political ideas.

Changes in the pro-state left position

Adequacy

Proposed changes to the BSP would set it at the current Pension Credit level rising in line annually with earnings. The Citizen's Pension suggested by Blackburn, Help the Aged and the Liberal Democrats would also be set at a similar level. The principle behind the Citizen's Pension is that it is based on residency instead of NICs. Therefore, it removes many problems faced predominantly by women, who spend time at home looking after their children or other family members at the cost of NICs that are needed to build-up entitlement to a BSP in their own right.

Affordability

The TUC have proposed that employees should be compelled to contribute towards a private sector pension as they argue that the current voluntary approach has failed. The TUC recognise that the trend is a move away from DB pensions and towards defined contribution (DC) schemes and this has transferred the risk from employer to employee. Therefore, they broadly endorse the recommendations of the Employer Task Force on Pensions that employers rather than closing DB schemes in favour of DC schemes should either consider modifying their final salary pensions to career average DB pensions or introduce a hybrid scheme that combines elements of both DB and DC schemes (TUC, 2005, p.21). The low paid they argue, would continue to contribute towards the S2P, which the TUC says should be paid for at a higher rate and 'offer something ... particularly, to carers whose opportunities for paid work are restricted. The S2P is the only practical vehicle for providing a second pension for workers on low pay; or with gaps in their employment for family responsibilities' (*op. cit.*, p.36).

The New Economic Foundation (NEF) also favours increasing employee contributions but this would be on a voluntary basis. In principle the scheme is an option out of the S2P diverting the equivalent NICs invested in the S2P into the People's Pension and therefore is linked to ability to pay (see NEF, 2003, p.9) establishing a People's Pension fund that would only be used for the social good: schools and universities; hospitals and other health care; transport systems; social housing and sustainable energy systems (see *op. cit.*, p.4). The NEF say this is an alternative to privatisation and would save the state money in the long term by 'eliminating the need for Private Finance Initiatives (PFI) or new government borrowing' (*op. cit.*, p.15). Moreover, the People's Pension would provide a secure pension return in 'an entirely new investment framework, completely free of the stock market, [by] provid[ing] a secure and safe place in which an individual or company pension scheme can invest' (*ibid.*). Blackburn also favours a funded second-tier pension and his proposal is based on an asset levy on companies. 'It is known as the Meidner scheme after the chief [Swedish] economist Rudolf Meidner.... This levy require[s] all public companies to issue new shares equivalent to 5% of annual profits each year. ... An asset levy could help to plug the pensions funding gap without subtracting from companies' cash-flow or investment plans' (2004, p.13). Importantly, to reduce the risk experienced in investing in stocks and shares, Blackburn proposes, as does the NEF, that some funds could be invested in property and into social infrastructure.

Other shifts in the pro-state left policy include the proposals of Field and the IPPR to raise the retirement age to reduce the cost to the state from an increasing elderly population. Field, in a response to the conclusions of the First Report of the Pension Commission stated, 'there is no single solution. The length of working life has to increase, to increase taxes would give no taxpayer a guarantee that future taxpayers would behave as honourably' (The Times, 2004, 12th October). The IPPR state that there is a need to '[raise] the state pension age to 67 by 2030 to give a clear signal to the current workforce that we will need to work longer and to ensure the overall settlement is affordable over the long run' (IPPR press release, 2004, 10th October).

In addition, the IPPR, along with the Liberal Democrats, propose phasing out the S2P to make affordable an improved first-tier pension. The IPPR argue that 'the Pension Credit and State Second Pension [would be phased out] with an enhanced non means tested basic pension [as] they would be redundant' (*ibid.*), whereas the Liberal Democrats would phase out the S2P after introducing the Citizen's Pensions (see Lynes, 2004, p.1).

'New' Labour has proposed tax relief as an incentive for pensions savings. 'The Government provides generous tax reliefs on pension saving in order to encourage and help people to save for a secure income in retirement. These reliefs are a critical component of the pensions framework. They are worth around £19 billion to private pensions each year' (DWP, 2002, p.40). Blackburn and Help the Aged also propose the continuation of tax relief but argue that it needs to be more redistributive. Help the Aged state that 'reforming tax relief has real potential to target taxpayer subsidy towards those who most need assistance in building a retirement pension, sufficient to lift them out of poverty. This measure would be fairer to tomorrow's pensioners' (2005, p.26). Blackburn also argues that the system currently favours the higher earner with the top 20% of earners receiving 67% percent of all pension related tax relief (see 2004, p.16). He proposes accountable regional pensions boards 'that would channel resources to all pension funds catering to the mass of employees and small savers, those with funds above the upper limit would not qualify. [They] could offer basic supplementary coverage to all but encourage employees to save more themselves by offering to match, say, the first £1,000 of annual contributions pound for pound, and a further £3,000 each year at 50p per pound' (*ibid.*).

In addition to tax relief, other incentives to encourage saving include simplification of the pension system and increasing financial knowledge to help individuals make informed decisions, as it is argued that greater transparency will encourage people to save into a private pension scheme. The former is favoured by the Labour Government and their intention was clearly defined with the launch of the Green Paper, *Simplicity, security and choice: Working and saving for retirement* (DWP, 2002), where they argued the need to simplify the tax rules that act as barriers to saving and proposed a 'simple framework'. 'All savings products operate within a framework of government regulation, including tax law, which means that simplifying their taxation can lead to real benefits for consumers, by stripping out similar products and so reducing confusion, as well as providing greater scope for individual choice and flexibility' (*op. cit.*, p.37).

Other pro-state left sources have favoured advocating improvement of financial knowledge as an incentive to save. Help the Aged stated, '[u]ltimately, education and information have a key role to play but, without concerted action to provide incentives for saving, the impact will be limited' (2005, p.24). Churchill and Mitchell argue that, 'for people to exercise choice, they need to understand the options which are open to them. This will require them to judge the products on offer from a dynamic financial services marketplace and to be reasonably sure that any savings they make will pay off in the long-term' (2005, p.20). The Liberal Democrats proposed that everyone should be given an annual pension forecast to help them plan their savings. In addition there should be 'new low cost ways of accessing advice, including through local Citizen Advice Bureaux' (2004, p.5).

Summary of proposals

There is a consensus that the BSP should be improved primarily by setting it at the current pension credit level indexed to earnings or by phasing out the S2P. This is in direct opposition to current government policy which favours means testing. A second tier pension is favoured with the private sector having a major role with either compulsory or voluntary employee contributions. The lowest paid would contribute to a modified S2P. There is some support for raising the retirement age. The majority of the proposals would retain tax relief on contributions although some sources, for example, Davies et al, Meacher and the NPC are against government tax incentives and against contracting out rebates. There was support for non financial incentives to save such as simplification of the pension system and attempts to improve financial knowledge. Trust in the pension system would be restored by increased regulation of the private sector or a commitment to the provision of adequate state pensions.

Changes in the pro-market right position

Adequacy

The CBI and the Conservative Party have proposed increasing the BSP up to the current Pension Credit level. The CBI state that 'future savings from the rise in state pension age and pension credit should be used to raise the basic state pension to the level of the pension credit' (The Guardian, 2004, 19th July). The Conservatives state that 'the only way to tackle the [pensions crisis] is to increase the value of the basic state pension so that it is once more worth at least as much as the means-tested benefit' (2003, 7th November). Significantly, the ASI proposed to raise the BSP to an income replacement rate (IRR) of 40% (see 2004, p.1). At its peak, in 1979, for a male average earner with a full working history the BSP replacement rate was 27.2%. In 2004 this had fallen to 19.0% and by 2050, under current government policy, will fall to 7.8%. A 40% IRR is in line with the peak level achieved by SERPS, which was 42.2% in 1998 (for IRR details see Disney and Emmerson, 2005, p.13). The NAPF proposal, *Towards a Citizen's Pension* argues the case for a Citizen's Pension at the Pension Credit level, stating that 'the benefits of a Citizen's Pension would be adequacy, simplicity, inclusion, encouragement to save, efficiency and certainty' (2004, p.1). The ABI, who expressed no interest in upgrading the BSP or introducing the Citizen's Pension, proposed increasing the S2P by 50% to provide 'adequate benefits as of right to lower earners and greatly reducing the need for means-tested benefits' (2003, p.1). Importantly the pension proposals emanating from the pro-market right have shifted away from the use of means testing.

Affordability

Both NAPF, who propose scrapping the BSP, and the ASI who propose scrapping the S2P, believe that the cost of pensions can be reduced by removing the need for a contracting-out rebate used to attract people into private sector MPSs. As NAPF argue, 'with a simple Citizen's Pension, contracting-out would be abolished and there would be a big reduction in the role of the Pension Credit. There are likely to be savings on the administration of pension payments' (2004, p.49). The ASI suggests the contracting-out rebate is an unnecessary cost to the state and by the removal of the state second-tier pension, would remove this burden.

Incentives

Despite the support of tax relief as an incentive for saving by the pro-market right, the ASI has called for their removal, as they are not serving their intended purpose. 'Governments have regularly used taxpayers' money to finance savings incentives. Notwithstanding these incentives, Britain has a saving habit in decline. Incentives may simply serve to distort the savings market rather than increase the amount being saved. While these distortions may have short-term beneficial effects, these are often short-lived and can be counterproductive' (*op. cit.*, p.3). NAPF, whilst not advocating their removal, state there is a need to '[r]estructure tax relief for private pension saving. A change to the system of individual tax relief may be desirable to rebalance the current bias towards higher rate taxpayers. Such a restructuring may also reduce the overall cost of tax relief - around £20 billion a year' (2004, p. 53).

Summary of proposals

The pro-market right proposals advocate an adequate BSP with the ASI supporting a BSP at an income replacement rate of 40%. The effectiveness of tax incentives *per se* as an encouragement to savings is questioned: those who argue for retaining them suggest that they should be more redistributive. While there is recognition that ignorance and complexity of the pension system can be a disincentive to save and that transparency in respect of financial products is essential to encourage saving, the question is posed as to the extent to which people can be made financially aware in respect of these products. The proposals support an increased role for the private sector in pension provision.

Having reviewed a range of pension proposals, the aim in the next section is to explore their implications for those on low pay.

Pension proposals and the low paid

The proposals discussed in the previous section have implications for the low paid: however, few directly focus on this group. Therefore this section will assess the extent to which the proposals respond to the problems of pension provision of the low paid found in the empirical research for this thesis and in the studies discussed in Chapter 4.

Research has identified the following problems that the low paid experienced in making pension provision. Firstly saving for pensions was only one of several competing demands made on a low income. Opportunities to save were limited. In the case of women, this was exacerbated by time spent out of the labour market, caring for children or elderly family members. Thus a first tier state pension was all important.

Secondly, the failure of both the state and the private sector to provide a decent pension for those on low pay had resulted in many respondents regarding the pension system as untrustworthy: so much so that some had been discouraged from saving via the pension route. While investment in property was seen as an attractive alternative to pension saving, this was not a practical alternative for many.

Thirdly, many respondents found pensions extremely complex and did not grasp the subtleties of the UK pension system.

Fourthly, there were limited opportunities in respect of second-tier pension provision. There was declining access to an OPS, especially of the DB variety. Alternatives such as a PP or a SHP required continuous contributions at a sufficient level to make them a viable option. These were difficult if not impossible conditions for the low paid to meet.

The research for this thesis, together with the findings of earlier research, has identified four key problems that the low paid have in respect of pensions: adequacy; trustworthiness;

ignorance and complexity; and feasibility and opportunity. How do the proposals discussed in the first section respond to these problems?

Adequacy

A key policy that affects the likelihood of a low paid person retiring with a decent income, free from means testing, is the value of the BSP. This constitutes a high proportion, if not all, of the retirement income for those on low pay. Currently, the value of the BSP is in relative decline and the Government favours using means testing to ensure the adequacy of pensions. Respondents viewed both trends with concern. As means testing tends to discourage saving, most proposals both from the pro-market right and the pro-state left favour upgrading the BSP at least to the current Pension Credit level. Research for the thesis found that respondents strongly favoured an adequate BSP and, in addition, the social insurance principle which underpins the BSP was widely supported with many respondents claiming that they would be prepared to pay increased NICs if an adequate BSP was guaranteed. However, the contribution principle has its weakness, for example, women carers have often been unable to achieve the full contributions required to attain a full BSP, which is fundamental to gaining a decent pension without recourse to means testing. This has led to Blackburn, Help the Aged, the Liberal Democrats, on the left and NAPF on the right to propose a Citizen's Pension (universal pension), which is based on residency rather than NICs; thus eliminating any problems due to time out of the labour market.

However, some on the left have argued that simply raising the BSP or introducing a universal pension such as the Citizen's Pension would have a minimal impact on the retirement income of the low paid. It is for this reason that Davies *et al*, Meacher, the NPC, the NEF and the TUC, all recommend that the state second-tier pension needs to be improved. Davies *et al* and the NPC support the reinstatement of SERPS, which they argue not only delivered a DB pension but was a redistributive scheme that favoured those on the low incomes. Current government policy, although not removing the state second pension altogether, has replaced SERPS with the S2P. The difference here is that those earning below the Lower Earnings Threshold Limit (LETL)[24] but above the lower earnings limit[25] (LEL) will be treated as if they have sufficient NICs equivalent to that earned at the LETL; here the accrual rate is 40%, which is twice that of SERPS at 20%. Yet above the LETL, for those still on low pay, the S2P is less beneficial than SERPS. This is because the accrual rate for the S2P above this level is 10%, half that of SERPS (see Essential Pensions (2005) for accrual rates). Therefore, although the government claims that the low paid will be able to rely on the state for support, their definition of low pay ensures that only the poorest will be better off, anyone earning above the LETL in reality will be expected to provide for themselves. This is part of the Government's agenda to balance rights with responsibilities, that is, the need for an individual to provide for the greater part of their retirement income.

Yet despite this declining value of the state pension and increased pressure on the low paid to provide for themselves, many have avoided taking up the SHP option. This has led to the discussion of whether individuals should be compelled to contribute towards such a scheme. The pro-market right would prefer that such decisions remained voluntary. The findings in this thesis identified that most respondents were not in a private sector pension

[24] £12,100 per annum in 2005/06 (The Pension Service, 2005, November, available from: http://www.thepensionservice.gov.uk/planningahead/add-state.asp).
[25] £4,264 per annum in 2005/06 (*ibid.*).

and although some respondents had been in a DB OPS, considered the best private sector pensions by the respondents, frequent changes in employment had left most outside this form of provision. Current government policy has been to leave this area of pension policy voluntary but the failure to attract new recruits into their SHP has led them to set up the Pensions Commission to assess the current system and find out if compulsion should be introduced. The TUC, who argue that the voluntary approach has failed, believe that compulsion should be introduced but at a level that does not affect the low paid as they should not be targeted. If the low paid are targeted to encourage increased savings for retirement they would be diverting their much needed earnings into a MPS, which on their income alone would be unlikely to generate a viable pension, and which may result in further cases of 'misselling'. This is because the 'SHP (like a personal pension) are individualized [and] individuals are vulnerable to poor fund performance or a bad day on the annuity market which can significantly reduce their pension entitlement' (Falkingham and Rake, 2001, p.83).

Importantly, this debate runs parallel with declining employer contributions into pension schemes *per se* and the fact that a MPS reduces the risk faced by the employer. In the above proposals only those on the pro-state left suggested increasing compulsion on employers, namely, Blackburn, Churchill and Mitchell, Davies et al, Field, Help the Aged, the NPC, the NEF and the TUC, whilst debate from the pro-market right and that of 'New' Labour to compel employers remains muted. For example, it is not compulsory for an employer to contribute towards their employees' SHP beyond the contracted out rebate. Moreover, with reference to the OPS, Blackburn stated, 'employers often used to contribute 12%-16% of salary to DB schemes but usually opt for a much more modest 3-6% for today's DC schemes' (2004, p.5). This increases individual risk, especially on the low paid.

Trust

Significantly, the lack of take up associated with the SHP by the low paid coincides with a general lack of trust in both the state and private sector to deliver a decent pension. In the case of the former, the failure of the state to provide a decent pension had left many respondents disillusioned, and believing that it was unlikely to provide for them in the future. Some pro-state left sources, Davies, and the NPC, for example, argue that there is a needs to redress this issue of trust as only the state has the capability to deliver a respectable guaranteed pension for the low paid.

Yet other sources, both on the left and right believe that increased trust is needed to encourage people to save into the private sector. Some on the left have recommended the establishment of independent pension boards to act in the public's interest, overseeing the running of MPSs to avoid the 'misselling' that previously blighted the PP. These sources include, Field, Help the Aged, the Labour Party and the Liberal Democrats, However, as previously stated, a MPS is likely to have little benefit for the low paid.

The lack of trust in the pensions system had led some respondents with property to suggest that they would use this as a security for their retirement. Yet as the Pensions Policy Institute (PPI) warn, '[v]ery few people will have enough wealth to invest sufficient amounts in property to allow them to use investment income from property instead of private pension provision' (2004, p.21). The PPI's research was carried out on the general population, so it could be argued that property as an alternative source of retirement income would be a less likely option for those on low income, as those on low pay are less likely to be home owners. Significantly, most respondents in this research said that their pension will be the main source of their retirement income and not property. Hence, the importance of pension provision can not be overlooked.

Ignorance and complexity

A significant part of this lack of trust with the pension system is linked to its complexity, leaving most ignorant of the subtleties that exist in the various pension schemes. As found in the empirical research for the thesis, knowledge of the pension system varied from at best satisfactory to at worst poor. Moreover, many respondents were not completely aware of the risks involved in a MPS unless they themselves, a family member or friends had experienced 'misselling', or that they had heard it through the media. It is for this latter reason that it is important that the complexity of the system is addressed. Most of the pro-market right namely, the ASI, the ABI and NAPF, and the IPPR favoured simplifying the system to help people make informed choices and improve saving habits and, thus encouraging them to contribute towards a private sector pension. Yet research findings for this thesis showed that for the low paid, making an informed choice when considering saving into a private sector pension is more complex than simply improving knowledge or simplifying the pension system. Rather the issue relates to the financial product available to many of them, namely the SHP which, as a money purchase product, is exposed to all the shortcomings discussed at several other points in this thesis.

Feasibility/ opportunity

Finally there is the issue facing the low paid of feasibility in respect to the options available to them and the extent these are real opportunities. As above mentioned, a decline in the value of the state pension has coincided with increased individualisation of the pension system and a decline in the much trusted DB OPS. Most respondents interviewed in this research had been a member of a DB OPS and most were confident with them. But problems with increasing labour market flexibility and frequent job changes make the DB OPS difficult to retain despite it offering a pension in which risk was shared with the employer. The decline in this option for the low paid is not addressed by most proposals discussed above, only the TUC make it clear that they would encourage employers to retain the DB OPS but, as previously noted, had accepted that the change to DC schemes are inevitable. All pro-market right and some sources on the left favour the MPS alternative.

However, empirical evidence in this thesis identified that most people on low income cannot contribute enough owing to competing demands on their income. This had left some respondents resigned to a retirement in which their hopes and ambitions would not be realised. Significantly, this emphasised that opportunity is not simply just about creating choices and that the opportunities available need to be feasible. The empirical research has already highlighted that those on low pay generally have a positive attitude towards saving and wanted to put money aside for their retirement. Moreover, some respondents were prepared to pay higher NICs if this was linked in with a guaranteed and improved state pension.

Coupled with the limits of a MPS, means testing is also seen as a restraint on opportunity. Both the pro-market right and pro-state left sources propose the removal of means testing much favoured by the Government. Currently, the means tested level for a pension is set at a rate that most on low pay would do well to achieve and thus acts as disincentive to save. Even if a pension level initially in payment is higher than the means tested level, as MPS pensions and annuities are not upgraded annually with earnings, some on middle income will be vulnerable to means testing at some stage of their retirement. The empirical evidence in this research identified that many saw means testing as intrusive and/or unfair. The BSP set at the current Pension Credit level would not penalise saving and would increase the likelihood that someone on low pay may try, if they can put aside savings, to save towards their retirement. Thus opportunity and feasibility requires a second-tier pension that takes into consideration this predicament of the low paid. This as argued by the pro-state left should be a decent state second-tier pension, whereas the pro-market right see this as a MPS private sector pension. In the case of the latter this is seen as cost effective to the state but fails to consider the lack of resources available to the low paid. As Adair Turner (an economic liberal as he declares himself) has shown there is no particular advantage of a private sector funded schemed over a state PAYGO scheme either in generating national savings or generating income for low to mid-incomes earners, as risk aversion only declines when a person's relative income position increases (see 2005, p.35). He stated, that 'state pay-as-you-go systems … are very cost-efficient forms of saving' (*op. cit.*, p.31). Thus choice towards a pro-market MPS is as much to do with political opinion as a rational decision to help those on low pay.

Finally, one other proposal deemed to improve opportunity to increase retirement income related to incentives to defer retirement. This was addressed in the empirical research and was regarded as popular as long as it remains voluntary. As an alternative to rewarding deferred retirement, Field and the IPPR on the left and the ASI and the CBI on the right all proposed raising the state retirement age to cover cost to the state. However, as Churchill and Mitchell argue, 'if the state pension age was increased to 70 … it would be at the detriment of the male manual workers whose life expectancy is 71. Some of the poorest neighbourhoods in the UK also have an average life expectancy of even younger. Increasing state pension age would harm lower income groups and worsen inequalities in the system' (2005, p.31). The empirical evidence for this research identified that most respondents were against working longer on a compulsory basis, believing that their working lives were already long enough. In any case it is argued that 'the UK has a much higher proportion of over-50s in work than most other EU countries, and could manage the ageing of its workforce with just a 0.25 per cent increase of older workers' (*ibid.*).

Table 7.2 offers an overview of the proposals discussed and the benefits that they hold for the low paid. The variables are organised in an order considered of most importance to assist the low paid out of poverty in retirement. This ordering is supported by the findings from the empirical research. It shows that those proposals with most ticks towards the top half of the table are the proposals that are most likely to benefit the low paid.

Table 7.2: An overview of the proposals in respect to the benefits they offer the low paid

Key features of the pensions policy that would benefit the to low paid	THE PROPOSALS																
	ASI	ABI	RB	CBI	C&M	CP	Davies	FF	HA	IPPR	LP	LD	MM	NAPF	NPC	NEF	TUC
To introduce a Citizen's Pension (universal pension)			√						√			√		√			
To raise the BSP up to the current Pension Credit level	√			√	√	√	√	√		√			√		√	√	√
To remove means testing	√	√	√	√	√	√	√	√	√	√		√	√	√	√	√	√
To introduce an improved state second-tier pension		√					√						√		√	√	√
To increase employer contributions			√		√		√	√	√						√	√	√
To improve trust in the state to provide a decent pension							√								√	√	√
To reduce labour market problems that face women		√	√		√	√	√	√	√			√		√	√		√
To encourage employers to introduce or retain the DB OPS																	√
To avoid the introduction of compulsion into a MPS	√	√	√		√	√	√				√	√	√	√	√	√	√
To scrap tax incentives that benefit the better-off	√		√				√		√					√	√		
To encourage voluntary deferment of retirement											√						
To improve transparency on the risks involved with MPSs	√				√										√	√	√
To simplify the pension system	√	√								√	√			√			
To encourage/improve knowledge on the various pension schemes					√				√			√			√		√

Key to table: RB, Robin Blackburn; C&M, Churchill and Mitchell; CP, Conservative Party; Davies, Davies et al; FF, Frank Field; LP, Labour Party; LD, Liberal Democrats; and MM, Michael Meacher

Conclusion

The focus of this thesis is on low pay and pensions policy and how to meet the income needs in retirement of this particular group. This chapter has reviewed a range of proposals for the reform of pensions. Although few focused specifically on the low paid, the chapter has analysed the relevance of the proposals for this group. There seems to be a consensus emerging across the political spectrum on the need to provide an adequate first tier pension either by upgrading the current BSP to the Pension Credit level or by the introduction of a Citizen's Pension. This consensus also includes an opposition to means tested benefits which are seen to discourage saving. Both of these aspects of the proposals would be supported by the respondents interviewed for this research.

Saving via second tier pensions continues to be an area of disagreement: namely whether this is an area for the state or the private sector. While the pro-state left support the former position, respondents suggested that an enhanced role for the state would need to be accompanied by restored trust in the system. Similarly trust was an issue raised in respect of private sector provision, especially the PP in the wake of the 'misselling' scandals of the 1980s and 90s. Respondents favoured one form of private sector provision, namely the DB OPS which was seen as offering a guaranteed benefit.

However such schemes are in decline and are often not available to the low paid. While many respondents favoured saving for a pension over and beyond that of the BSP, they also noted the financial constraints on this undertaking. Complexity of the financial product available to them was also a problem. Proposals to increase savings by raising the retirement age were not welcomed by respondents.

Yet, it is the current Government's determination to persevere with means testing, when other pro-state left and pro-market right sources propose its removal, that is of interest. Moreover, New Labour has chosen to continue with neo-liberal policy, a break with traditional Labour, with its introduction of the SHP, a MPS. As Page states, 'there is no doubt that New Labour has an ideological commitment to the free market that was not shared by previous Labour administrations. … It wants to foster an entrepreneurial culture and create a tax system that rewards those who work hard and take risks' (2001, p.514). However, as has been discussed, such policies do little to help those regarded as low paid, who themselves work hard but are unable to shoulder the increased risks placed upon them. The concluding chapter of this thesis will draw together the findings from the previous chapters followed by a discussion on New Labour's direction in pension policy. The conclusion aims to challenge Government thinking, arguing that alternative policies to help the low paid retire with a respectable income whilst retaining a strong economy are possible.

CHAPTER 8: CONCLUSION

Summary of findings

This thesis has identified a shift from the socialisation of risk towards the individualisation of risk. Post Second World War economic policy supported the need for a welfare state in which Beveridge proposed subsistence level benefits in retirement for all. This would be financed via flat-rate insurance with the aim to avoid the need for means tested benefits. Above this level it would be for the individual to provide for himself[26]. Yet limits to Beveridge's flat rate contribution scheme and the post war Labour Government's failure to implement key aspects of his report has left many of the poorest relying on means tested benefits. What followed was a battle between Labour and Conservative governments from the mid 1950s through to the 1970s on the state's role in pension provision. The Conservatives were not opposed to state provision. Rather they favoured a more minimalist approach than Labour. Yet Labour recognised that the coverage of the OPS was limited, particularly for those on low pay outside the public sector. This they argued exacerbated wealth inequalities in retirement so they proposed state intervention to manage risk in old age through a state second-tier pension. Labour's ability to gain power only once during this period led to a watering down of their state superannuation proposal, instead introducing SERPS in 1976, during their 1974-1979 administration. Part of the reason for this is that whilst Labour spent time in opposition the Conservatives were able to leave their stamp on pension policy. They attempted to minimalise the socialisation of risk and

[26] The use of himself is to emphasise the bias policy had at the time towards a male dominated nuclear family.

introduced a number of collectivist elements, believing that a state superannuation proposal would in fact damage the OPS.

However, it was the Conservative Party's shift from collectivism to individualism during their 1979-1997 administrations that completely broke the consensus. Now rather than supporting the OPS, they emphasised its apparent weaknesses, namely its partial coverage and its inflexibility. The important concept now became individual ownership and the key financial product the PP. This was seen as being highly flexible and 'one's pot of gold'. Significantly, the PP is a MPS and does not offer a guaranteed payment. The fund depends on how successfully it is managed, the vagaries of the stock market and the administration costs. Yet the shift of responsibility onto the individual to provide their own pension exposed many of those on low pay and on middle income to a number of problems including 'misselling'. The result was that many workers retired with pensions well below their expectations and in many cases below the amount that would have been achieved if they had remained in the state scheme or an OPS.

With such problems experienced by many, it was expected that Labour being a pro-state left party, would resolve many of these issues on their election in 1997. Instead, Labour continued along the individualisation of risk route, introducing their privatised pension scheme, the SHP, said to be more secure than the PP, as it would be overseen by the FSA, to prevent the problems of 'misselling'. Labour claimed that their S2P that replaced SERPS would protect the poorest in society. Their policy aims to attract those regarded by the

LPU and the Council of Europe as low paid into the SHP[27]. The problem though is that the SHP like the PP is also a MPS, leading to the contention that Labour's policies are little different to those of the Conservative Party.

Still Labour stands firm that welfare provision should be tied in with rights and responsibility, promoting individualisation of risk for all but the poorest. A major influence underpinning this belief has been the idea that we live in a 'risk society' (Beck, 1992). These ideas influenced Giddens, regarded as a key intellectual influence on New Labour's 'third way' political agenda. Although Giddens does not specifically discuss pension policy, his aim was to modernise the welfare state given the advent of 'new' risks. The 'risk society' concept is clearly identified in Labour's pension policy, as the SHP embraces the idea that active risk taking should be encouraged, whilst the state role should be marginalised. This concept has however been challenged on the grounds that it assumes equal interests in society with a cure-all approach to how society should be served (Taylor-Gooby, 2001). Moreover, it raises the question of whether, within a 'risk society' framework, which advocates individualisation of welfare provision (as opposed to collectivism or socialisation), there can be adequate support for the low paid during retirement.

It has been the attempts to address and understand low pay since the post war period that are of particular interest. The post war welfare state settlement was structured around demand-side Keynesian economic policy that promoted equality of outcome, emphasising the importance National Insurance Contributions (NICs) had in protecting workers in times of unemployment, illness and later in retirement. During this period, risk was shared

[27] At the time the empirical research for this thesis was designed, April 2002, the Government had set low pay at £10,800 (the LETL). Above this level individuals are encouraged to join the SHP, a MPS. The LPU

between the employee, state and employer. However, it was designed in the context of a traditional family unit that left women disadvantaged. This is because women tended to work at home bringing-up children, looking after the house and other family members and were thus unable to build up their own NICs. This meant they had to rely on their husband's contributions. For widows and divorced wives, it proved to be particularly inadequate. Moreover, if a woman did choose to work, she more often than not found herself in low pay employment. This structural bias favouring men in the labour market was only partly challenged and hence government intervention at the time to reduce low pay had minimal success.

However, the Keynesian economic policy was challenged by neo-liberalism in the 1980s with a shift towards supply-side economics and resulted in the deregulation of the labour market. Many jobs in the manufacturing industry disappeared and were replaced by service sector employment. These positions were more precarious and, notably for men, comparatively less well paid. As the findings in this thesis showed, part of the reduction in the wage differential between the genders was achieved by the relative lowering of male earnings rather than simply raising women's wages. This created wider inequalities. The ideology of neo-liberalism emphasised labour market deregulation and the individualisation of risk. New forms of work practices and declining trades union power required individuals to be flexible and exposed many low paid workers to further job insecurities. The decline in unionism during this period left many exposed to the 'low pay, no pay cycle', resulting in many low paid workers with minimal or no protection of their workers' rights. Moreover, claiming unemployment benefit from the welfare state was seen as 'scrounging' rather than a right and rights to unemployment benefit were reduced. In 1998, Labour introduced the

and EC definitions of low pay were below £14,560 and £16,431 respectively.

National Minimum Wage (NMW) to address some of the worst effects of a deregulated labour market. However, the NMW only benefited 1 million low paid workers in 1998, 1½ million less than the trade boards had by the time of their demise in 1993. Thus, although low pay and its inherent insecurity are not new, under neo-liberalism both aspects have become more pervasive as more people are now left exposed to market forces.

The effect of low pay has created uncertainty and anxiety as many people struggle to make ends meet and become trapped in low pay through no fault of their own but owing to social inequalities they face in life. As identified in chapter 2, the low paid are not only in a disadvantaged position but daily life transactions act against them, such as services charging more for their custom. Moreover, when in debt they are more likely to be pursued for repayment and find themselves in a court of law. Significantly, debt itself can lead to other problems, including illness and break-up of families. This evidence challenges neo-liberal ideology in pension policy, which believes attitude and awareness towards saving need improving in order to encourage the low paid to put-aside sufficient income to save for their futures and that the low paid do not make the most of the opportunities available to them. Research evidence points to the contrary, identifying that inequalities derive from within the social structure, reducing the opportunities available to the low paid and limiting their ability to save.

The research in this thesis has critically examined recent surveys and research reports that analysed various individuals' attitudes, awareness, approaches and ability to save for retirement. A comprehensive review of these findings was then used to support and focus the empirical investigation on the concerns of the low paid. Moreover, this analysis of previous research identified the gaps that exist in knowledge of the low paid. These reports however did highlight that there was a concern with the future of pension provision and that many issues need to be addressed in order to prevent individuals retiring in poverty. Key findings were that generally, opinion on the state pension was not positive owing to the poor returns expected, particularly amongst younger respondents. Research, however, did show that some people would be prepared to pay more tax or NICs to improve the state pension (Hedges, 1998). Higher earners felt that the individual should be responsible for saving for retirement yet, as with all earnings categories, a significant minority believed that the state still has a significant role to play and should at least provide a decent pension (Mayhew, 2001). This, many believed, to be a BSP at the level that would have been achieved if unaltered by the 1986 Social Security Act, whereas others believed that a respectable state second pension should exist as an addition to the BSP (Hedges, 1998), emphasising that there is a positive attitude towards the concept of a state pension. In the case of the differing non-state pension schemes, the DB OPS was most favoured by all except the youngest group. The youngest group believed that the PP would pay out the best pension (Hawkes and Garman, 1995). This highlights that many of the younger generation like the principle of individual ownership in the area of pensions, promoted fervently by Conservative Governments in the late 1980s. Still a significant number did not trust the PP owing to the 'misselling' scandals (Age Concern, 2002).

Research reports also highlighted that attitudes towards pension schemes were underpinned by a general lack of awareness on how they functioned (Hedges, 1998 and Thomas *et al*, 1999). Moreover, a respondent's knowledge of a particular non-state pension correlated with their participation (Mayhew, 2001). Despite this, for most, knowledge on the allocation of risk was limited.

In the case of the state pension most understood the principle behind the BSP but with SERPS knowledge was almost non-existent, especially for people below the age of 40 (Hawkes and Garman, 1995, Hedges, 1998 and Thomas *et al*, 1999). Significantly, this correlates with the positive publicity of the PP in the late 1980s to the detriment of the state second pension, which at the time was being devalued.

Furthermore, the analyses identified that pensions are not the only approach to saving for retirement. For example, some ethnic minority groups rely on profits from their businesses and intergenerational support for their retirement income, as found in the study on the Bangladeshi and the Pakistani community by Nesbitt and Neary (2001). The self-employed, although having to rely to a greater extent on the PP as they are excluded from the state second-tier pension, looked to increase their liquid and capital assets and by retirement had more savings, and were more likely to be homeowners than were employees (Knight and McKay, 2000). Therefore, policy compelling people to save via the pension route would need to consider alternative provisions individuals may make.

Yet importantly, findings identified that the strategy an individual was likely to take was linked to socio-economic well-being. For example, those who are better-off were likely to have made pension plans (see Mayhew, 2001). This in part is because the low paid are often in flexible employment limiting their access to a DB OPS and, therefore, less likely to be in a non-state pension (Field and Prior, 1996). This again emphasises the disadvantages not only in income but in fringe benefits that face the low paid. Predictably, from these findings the low paid felt less confident about having sufficient income in retirement when compared with those on high to middle income (Age Concern, 2002). Hence, this emphasises that current changes rather than benefiting those on low income are actually having an adverse affect.

Significantly, for women, who make up the majority of the low paid, additional problems exist as many take time out from the labour market to bring up children or care for family members. This is because their NICs records suffer, whereas previously SERPS considered the best 20 years of a person's working life and HRP helped bolster women's NICs, improving their BSP. Now the 20 year rule has been abolished and both SERPS and the BSP have declined considerably in relative value. Moreover, although Rowlingson (2001) found that younger women are more likely to save like their male counterparts today, this will take decades to filter through the system. Meanwhile, nearly 2/3 of women are not covered by a non-state pension (Field and Prior, 1996). This highlights that women continue to suffer from inequalities and that little has been done to help resolve them. Actually, policy has helped continue this disparity.

To sum up, these documents addressed many issues concerning pensions and retirement, using social class, gender, earnings and ethnicity as social indicators, which include the low paid. Low pay, however, was not tackled as a separate issue, which is of particular importance as the low paid are often in insecure employment and working long unsociable hours and face different problems as they are often trapped in poverty throughout their working lives. The result has been an increase in disparity between them and the better-off at a time that pension provision has shifted the risk onto the individual. Yet Labour's policy continues to believe that all but the poorest in society should save for their retirement but this excludes many low paid workers owing to the Government's definition of low pay. Such discrepancies are bound to be problematic but most documents did not address this or the risk associated with this change in policy. Instead some seemed to accept that this change was inevitable and that a decent state pension in the future would be too costly. In addition, Labour has introduced the MIG (now the Pension Credit), a means tested benefit that far outweighs the value of the BSP. However, this introduction was barely mentioned, although in the near future most low paid and even middle income earners could be eligible for this benefit. Importantly, the studies by Taylor-Gooby (2001) and Rowlingson (2000) emphasised that following the current government route will exacerbate the situation for the less well off in society.

My empirical research focussing on the low paid, providing detailed interviews with 28 people supported some of these findings. For example, it confirmed that knowledge overall was at worst very poor and at best satisfactory. Moreover, few respondents were aware of the risks involved in the pension system, although some sensed that it was not functioning as it should be. The few that were partly aware, importantly, had experienced 'misselling' of a PP either at first hand or had known of this happening to friends and/or family.

In the case of the OPS, this was once considered to be the safest and best private pensions option but with headline news identifying collapses of company pensions this has resulted in some on low pay simply feeling distrust either towards the financial industry or the state itself and, hence, end up making no decision on pensions at all. Significantly, many companies are changing from DB OPS to DC OPS and only allowing new recruits into the latter, which effectively changes the OPS into a MPS, shifting the risk from the employer onto the employee.

Despite this shift of risk, the government continues to stress the importance of making alternative provision: to do nothing is considered a high-risk approach. For those without an OPS, which is likely if low paid and earning above £10,800 p.a., this option would be the government's SHP. The SHP is a MPS that offers no guarantee of employer contributions or guaranteed benefit. The respondents interviewed in this research who had heard of the SHP were far from encouraged by this 'new' scheme. Yet in the promotion of SHP its inherent risks are never fully explained, whilst at the same time the government claims that people are meant to make informed choices. The fact that the SHP has not attracted many of its target group is a positive consequence, based on the findings of Frank Field as those on low pay would be better-off remaining in the S2P (2001, The Guardian, 17th August). My empirical research confirms that the awareness of risk reallocation needs addressing if many are to avoid the potential of 'misselling'.

Still the government remains concerned that many are not putting aside enough for their future. With the decline of employer contributions and state involvement this is clearly the case. This is often considered to be the result of a negative attitude towards saving for retirement. My findings, however, identified that respondents had predominantly sensible and positive attitudes towards saving and saving for retirement. Rather than there being a problem with attitude, barriers were simply that the low paid could not afford to save towards a SHP nor did they trust such schemes. Consequently, 'inertia' that is considered to be a high risk approach appears to be the best option for those on low pay.

Other findings in this study have identified that the concept of low pay is not straightforward, as many people now in low paid employment have differing employment histories. Furthermore, just as the past is different for people so too is the future complex; how people view the future is multi-dimensional. This research has concluded that there is a need to go beyond current policy thinking, which aims to shape people's future orientation on saving for retirement but underplays a person's ability to save. We have seen that many were not saving for retirement, especially via the pension route. Instead, some viewed property as part of their retirement income, which itself is a complicated issue as income gained from property is questionable and itself a risk. In any case, many low paid are renting as opposed to being homeowners and hence for most, the pension will be the major source of retirement income.

Thus with a devalued state pension, increased chances of 'misselling' are likely owing to the shift towards the MPS and the fact that the DB OPS are on the decline in low paid employment. The situation does not bode well for those on low income. This study has identified that for those who previously had an OPS, owing to cutbacks made in the manufacturing industry and public sector, many are now left without a trusted second-tier private pension. Arguably, the OPS is notably difficult to transfer and this needs addressing. But the flexible alternatives clearly cannot achieve this for those on low pay as they do not offer either a guaranteed pension or guaranteed employer contributions.

Still, despite the problems facings the low paid respondents, some currently felt financially secure but these were those who have financial assets from the past. Significantly, excluding property owners, many have seen their assets diminish as they try and survive on a low income. In addition, some of those who have experienced low pay all their lives feel more insecure as they have increased responsibilities and debts to pay off. Importantly, financial security delivers the psychological benefits that make people's lives feel better, a life with less worry and stress. Overall the interviews showed that people are aware of the need to save for retirement and when the OPS was more widely available many respondents had joined one, confirming that for many their attitudes, when given the opportunity, are 'responsible'. Some situations are exacerbated as a result of being low paid, such as experiences of unemployment, and for many in this study they had experienced a relative decline in earnings over time. It was also found to be harder for single parents on low pay to remain in or obtain full–time employment as they need to find the time and financial support to care for their children, emphasising the issue of competing demands.

Consequently, many respondents realised that their hopes in retirement would be difficult to achieve, especially as many are currently unable to contribute towards a decent second-tier pension. This study has shown that policy, rather than creating an opportunity and encouraging people to save for their future, has cutback the state pension at the time the OPS is on the decline. The low paid are expected to handle this risk reallocation. Policy focuses on changing attitudes and improving awareness but this empirical research has demonstrated that policy needs to focus more on issues relating to the ability to contribute if it is to prevent poverty for a significant number in retirement.

The current inadequacy of both the state and the private sector to deliver a decent retirement income, not only to the low paid worker but also to middle income earners has led to the situation often described as a pensions 'crisis'. In order to tackle this problem, the government set up the Pensions Commission to find out whether there is 'a need to move beyond the voluntary approach' (Pensions Commission, 2004, p.5). The full recommendations were expected in November 2005 (see post script). In anticipation of these recommendations, this thesis analysed current proposals with reference to the problems facing the low paid identified in the empirical research. In summary, it was found that the debate is being fought from two key positions, namely, from the pro-state left and the pro-market right. For many years now the role that the state has had in pension provision has been reduced in favour of the private sector and even the current government aims to continue along these lines despite once being considered a left wing party.

However, a key finding from the review of these proposals is that the pro-market right sources agree with pro-state left sources that it is necessary to raise the current BSP up to the Pension Credit level, or have even recommended the introduction of a Citizen's Pension. Their main reason behind this is that means testing is seen as a disincentive to save towards a private sector pension. Thus there is now consensus that the state will need to bridge this gap, especially as it is accepted that the low paid genuinely cannot afford to contribute towards or make a private sector MPS a viable option, that is above the Pension Credit level. Still a key debate is how this change should be paid for and, in the main, pro-market right groups would accomplish this by removing the S2P/SERPS and/or raising the retirement age. This, the left has argued, would not only leave many low paid workers poor in retirement but unfairly discriminated against as they generally have a lower life expectancy. Therefore, some left sources still firmly believe that it is the state's responsibility to have a guaranteed earnings related state second-tier pension. Moreover, they argue that although the private sector via DB OPS still can offer a guaranteed benefit, these are on the decline and are of limited availability in low pay employment, emphasising the need for the state to take control in this area.

A key issue emerging from the interviews in the empirical research was the lack of trust in the state pension. This has been lost owing to two decades of neo-liberal policy with its drive to promote private sector pensions, which has undermined the ability of the state to serve such a role. Some pro-state left sources, therefore, have proposed that there would have to be the restoration of a Treasury contribution, which has been withdrawn and has depleted the National Insurance Fund, weakening the social insurance principle. They argue that a decent state second-tier pension over and above an improved BSP or a Citizen's Pension would go a long way to improve the plight of the low paid in retirement. If people want to save above this level into a private pension then the option would still exist, but this would not be via contracting out encouraged by tax relief. These they argue are financial incentives that are an unnecessary cost to the state. Even some pro-market right sources argued that these incentives distort the savings market for what are only short-term gains.

In summary, the above findings tell us that in the current situation neo-liberal ideology continues to dominate. Labour has made no attempt to reverse any policy introduced by the last Conservative Government, accompanied by a pro-business outlook. Policies have shifted market risks from employer to employee. Labour's SHP not only cannot guarantee a benefit to the individual but there is no pressure on the employer to contribute towards this scheme: their role is simply limited to making the SHP available.

Implications for future research

This thesis focused on the low paid as a whole, recognising that specific groups were more likely to experience low pay. Findings established that women made up the majority of the low paid and therefore issues specific to them were addressed. It also identified that some ethnic minority groups in low paid employment have different attitudes towards pension provision, namely the reliance on intergenerational support. However, it emerged that low pay is both wide ranging and complex and beyond the scope of one study. Thus an analysis of low pay and pension provision for one of these groups could be carried out in a further study to address specific issues in more detail. For example, research on women in low paid employment could examine the extent that generational change has affected women's opportunities and ability to provide for themselves in retirement in light of their increased participation in the labour market. A further study on ethnic minority groups experiencing low pay could examine the possibility of other approaches adopted to provide for retirement. Moreover, with some current proposals suggesting the introduction of the Citizen's Pension as the way forward, research could analyse the concerns and issues of ethnic minority individuals who have recently settled in the UK.

A further issue that emerged from the research which would warrant further investigation is the effect of homeownership. The current difficulty for potential first time buyers to get a foot on the property ladder has made this issue very topical, particularly its effect on pension provision, especially as now some respondents are relying on property for their retirement income. Significantly, my findings highlighted that the younger age group were more likely to be in rented accommodation. Finally, issues surrounding self-employment are of interest. Nowadays, many people self-employed are low paid and are not entitled to state second tier pension provision, which I argue is essential for providing a decent retirement income. These are all areas which merit further research. My empirical research highlighted numerous issues that specifically affect the low paid and that low pay itself significantly limits an individuals' ability to generate sufficient income for retirement without state intervention, namely to provide a guaranteed second-tier pension.

What does the future hold for policy?

The main conclusions of this thesis are that not enough is being done in the policy arena to help future pensioners on low pay, and some on middle income, to avoid the stigma of means tested benefits. Constantly, from the pro-market right the argument of cost is produced to counter any realistic attempt to resolve poverty for the low paid in retirement. Moreover, now that Labour refuses to raise taxes on the highest earners, attempts to redistribute earnings are restricted. Instead the low paid are expected to change their attitude towards saving for retirement; that is to be more 'prudent' and put aside income for their futures. This is despite findings which show that the low paid actually, in the main, have a sensible attitude towards saving and the barrier towards saving lies in their inability to save due to shortage of money. In any case, the likely amount that some can save will do nothing to prevent retirement on means tested benefits. So obvious is this situation that the pro-market right are calling for the Government to raise the BSP up to the Pension Credit level. In the case of the Conservative Party, this represents a complete U-turn. However, their reasons are not social but financial, namely, to encourage people to save into a private sector MPS, whereas means testing is seen as a disincentive to save. Yet the cost of these changes would be covered by increasing the retirement age or removing the S2P, which is the one mechanism in place that if improved could benefit those on low pay.

Issues of the cost to the state owing to a rising population of elderly people with its links to a pensions 'crisis' is always forwarded to scupper any change that may disadvantage the Finance Industry. This thesis has argued that increases in the elderly population have occurred but so have an increase in productivity per capita and an increase in the size of the workforce, owing to changing employment rules that have encouraged women into work. The question then arises to what extent is the expanding elderly population actually the problem? For example, evidence identified that retirement falls well below 65 in some cases and that stricter legislation reducing ageism in the workforce for those over 50 would go a long way to address and/or reduce the claimed cost to the state. As Digby Jones of the CBI stated, 'nearly 40 per cent of 55-64 year old men have dropped out of the labour market as well as over half of all women in the same age group. The Government's first priority should be to increase participation rate among this group of individuals' (see Brooks and Denham, 2005, p.56).

Significantly, what stands out is that rather than there being a pensions 'crisis', it is more a case of how the labour market is structured that is the issue. As Keep states, 'the UK has a relatively low-wage economy. ... The causes of our low wage, low productivity economy appear structural and deeply embedded' (2003, The Guardian, 16th December). Consequently, many people find themselves in low paid / flexible employment, which itself has shifted the risks of the market on to the employees as they can be made unemployed at a moment's notice if a company feels the need to cut costs. This low paid economy underpins the potential that other policies, such as pension policy, have to work. At present low pay is so prevalent in the UK economy that 17.8% of the total workforce of 28.6 million employed and self-employed are claiming the Child Tax Credit/Working Tax Credit (formerly the Working Families' Tax Credit). This is a total of 5,093,500 workers (GMB British's General Union, 2005, 13th September). The state is subsidising low pay employment and bailing out low paying employers. Yet many of these jobs are in the service sector, serving local economies and unaffected by the hype of globalisation (see Toynbee, 2004, The Guardian, 29th October). Hence, the fear that raising wages would cost jobs owing to international competition cannot be justified and highlights the social injustice of low pay.

Despite this low pay economy, Labour claims it has helped cut the incidence of low pay with its introduction of the NMW. However, this is set at a low rate so its impact has been considered minimal. Still it expected that those on low pay should save towards a private pension. Moreover, 272,000 workers were paid below the NMW in spring 2004 (Office for National Statistics, 2004a, 28th October) and as Toynbee states, 'the government refuses to create work inspectorates to root out companies exploiting weakness and ignorance about basic working rights' (2005, The Guardian, 19th August). The low level set for the NMW is in line with the government's underestimation of the definition of low pay. This is without doubt the most important single issue, as the S2P has been designed only to help those on or below the LETL above which the SHP MPS is the expected option. Therefore, if the government had regarded the European Council or LPU definition of low pay as the LETL, and at the same time upgraded the BSP to the Pension Credit level, many problems facing the low paid could have been reduced. For example, there would not be a need for individuals on low pay to worry about saving for their retirement as this would be accounted for via a redistributive NIC system paid for through earnings.

However, the Labour Party has embraced many changes that favour supply side economics and entrepreneurialism. Education is still considered as the way to improve one's chances in society. Yet university education, which many are now pressured into to attain jobs that previously would not have required a degree, costs an extortionate amount leaving this years graduates (2005) with debts averaging £12,640, whereas a student embarking on a three year degree course now can expect to pay £28,600 on tuition fees and living expenses (NatWest Survey, 2005). Yet average graduate salaries in 2005 still only stand at £14,090 (*ibid.*). Therefore, graduates are expected to pay off their debts whilst on low pay as well as put aside some of their income towards a pension. As Hardwin Jones, editor of milkround.com, the graduate recruitment website, says, '[i]f graduates have higher debts they will not be able to afford to save until much later' (Times online, 2005, 5th September). This can severely reduce the fund a graduate could hope to generate for retirement. Thus the emphasis on education downplays the impact that structural inequalities have in creating and maintaining a person's low pay status and is a simplistic approach in attacking low pay on its cause and effect. Effectively, increasing graduate numbers in a low paid economy will result in increased number of graduates on low pay. Still opportunity, which predominantly focuses on self improvement through education and training, is deemed as the solution to low pay.

Much has been made of Labour's success in running the economy under the chancellor, Gordon Brown. Yet as Talbot states, 'for its first period in office ... Labour could rely on a workforce that had suffered a major reduction in its wages rates and attacks on employment rights. … By the time of Labour's second term Brown only prevented Britain from going into recession by encouraging consumer spending, causing a huge growth of indebtedness and increasing public spending' (2005, 4th May). Thus the initial impetus of Labour's success has been based on a competitive advantage over other developed countries by having a low waged economy, whereas the second impetus had been achieved by encouraging those on low pay to spend money they do not have. However, personal debt and outgoings make it difficult for many people in the UK to save for retirement as the gap between wages and the cost of living continue to widen. Credit Action stated that 'personal debt is increasing by £1 million every four minutes. In June 2005 the total UK personal debt reached £1.1 trillion' (2005, 3rd October). This is an average household debt of approximately £7,713 excluding mortgage and £45,437 including mortgage. This is a major contradiction in the UK's current economic system; namely, that on the one hand the government often wants to encourage the public to spend, whilst on the other hand people are expected to save for their retirement despite many being low paid and in debt.

The current dominance of neo-liberal policy makes it difficult to see any changes beyond the improvement of the BSP. Instead preference is likely to be to increase compulsion on an already burdened group who will have to make further sacrifices. Another solution would be to increase retirement age. It may be a sensitive area at present but with further calls to bridge the shortfall and cut costs, this could easily be introduced in the future. Nevertheless, clearly, neither of these proposals are solutions. For example, increased individual contributions into a MPS SHP will do nothing to improve the plight of the low paid and increasing the retirement age is particularly cynical, especially as the low paid have not benefited equally from the increase in longevity and suffer longer periods of ill-health. Instead now is the time for the government to admit that neo-liberal ideology has limits in certain policy spheres, namely in providing a pension for the low paid, as even pro-market right sources have concluded. Thus unless there is some greater form of redistribution of wealth to help the low paid in retirement, which currently can only be through the trusted social insurance scheme, it is hard to see how the inequalities during working life will not be exacerbated in retirement.

Still Labour sees the need to continue supporting this neo-liberal shift, in fact more vigorously so. This it justifies on the grounds of globalisation and the need to be flexible, a concept underpinning 'risk society'. In the last Labour Party Conference, Tony Blair stated 'the world is on the move again: the change in the early 21st century even greater than that of the late 20th century. So in turn, we have to change again. Not step back from New Labour but step up to a new mark a changing world is setting for us' (Times online, 2005, p.2, 27th September). He goes on to state, '[i]n an era of rapid globalisation, there is no mystery about what works: an open, liberal economy, prepared constantly to change to remain competitive. The new world rewards those open to it. Foreign investment improves our economy' (*op. cit.* p.9). Such arguments can sound convincing. In a modern capitalist world, economic growth is important and government's survival depends on the success of their economic policy. However, when economic growth is achieved by increasing inequalities between the rich and the poor, it lends the question can economic growth be achieved on more egalitarian grounds? This debate and evidence Jackson and Segal explored asked the question: 'Why inequality matters?' They concluded, 'the substantial impact of policies and labour market institutions on equality give the lie to the myth that governments are powerless in the face of disequalising forces, whether from globalisation or technical change. Experiences of minimum wages show that government policies can affect market inequality. ... Governments play a large role in determination of economic inequality and can choose to reduce it or increase it' (2004, p.51).

Such an example of economic choice can be identified with Labour's pension policy compared to other Organisation for Economic Co-operation and Development (OECD) countries. Table 8.1 identifies that the UK, is one of the least generous countries when it comes to income replacement rates. Significantly, even these figures are set to decline as current increases of the state pension are annually increased only in line with the retail price index (RPI).

Table 8.1: Gross income replacement rates (IRR) of mandatory pensions programmes – selected OECD countries.

Gross replacement rates by individual earnings level, mandatory pension programmes, men			
	Someone on half average earnings	Someone on average earnings	Someone on twice average earnings
OECD Average	**73.2%**	**57.2%**	**47.8%**
Denmark	82.4%	43.3%	23.8%
France	84.2%	52.9%	47.4%
Germany	47.3%	45.8%	37.6%
Italy	78.8%	78.8%	78.8%
New Zealand	75.1%	37.6%	18.8%
Norway	65.3%	52.6%	38.4%
Sweden	87.8%	64.8%	66.2%
UK	67.4%	37.1%	22.5%
US	49.6%	38.6%	28.1%

Source: OECD, Pensions at a Glance - Public Policies across OECD Countries 2005 Edition.

Yet despite this it has been suggested that the generosity of other schemes will also have to change over time as demographic changes start to impact on EU Countries. There is no secret that Tony Blair regards it as necessary for other EU states to open up their borders to free trade and limit their social democratic policies. In a recent speech to the European Parliament he stated, '[t]he purpose of our social model should be to enhance our ability to compete, to help our people cope with globalisation, to let them embrace its opportunities and avoid its dangers. Of course we need a social Europe. But it must be a social Europe that works' (2005, 23rd June). This direction is considered detrimental both by France and Germany who are determined to stand by the EU's social model. Such moves are not only seen as an attack on how these countries run their economies but their welfare states. Yet currently, the Nordic countries, where the social democratic model remains strong with their cradle-to-grave welfare systems, are outpacing the European average in economic growth and despite having such large public sectors all have budget surpluses (see Fuller and Ekman, 2005, International Herald Tribune, 17th September), thus emphasising that economic growth can be combined with egalitarian social and economic principles.

To achieve this and truly resolve the current dilemma facing the low paid, namely, how to avoid a retirement on poverty income (that will be means tested and therefore denying the individual personal autonomy) the Government would need to choose something in line with the following proposals:

Firstly, there is a need to upgrade the BSP to at least the Pension Credit level. There is a consensus on this. But to avoid problems currently suffered by women working at home or acting as carers, the Citizen's Pension would be a fairer option. Women represent the majority of the low paid and rules to improve NICs records have had little impact on resolving their plight. However, unlike some proposals, this should not be accompanied by the demise of the S2P or increasing the retirement age as both would be detrimental to the low paid.

Second there needs to be a state second tier pension much like SERPS that actually recognises the level of low pay. For example, as discussed in depth in this thesis, the government has claimed that it will help the poorest in society and the others will have to protect themselves via its SHP, a MPS that places the risk on the individual. However, this has excluded many who are low paid exposing them to risks they cannot afford. The LETL in April 2002 was set at £10,800 per annum and seriously underestimates the prevalence of low pay in the UK economy. Instead the LETL should have been set to at least the Council of Europe's level, which was then £16,431. The system, as with SERPS, should have an upper earnings level (UEL). This should be set at male median earnings £21,840 (April 2002) above which contributions would not be payable, allowing the option of a MPS third tier pension if desired. Importantly, if a person on sufficient income chooses to take a risk, it would not be detrimental to a significant part of their pension. Within the LEL and the UEL, the state pension would need to redistribute earnings towards the lowest paid but guarantee a minimum of a 50% IRR at the LETL (inclusive of the BSP). Significantly, as with SERPS the average of the best 20 years should be considered to redress the disadvantaged suffered by low paid workers as their highest earnings capacity is usually during their 40s. Opt out into a MPS or an OPS would be voluntary but no tax relief would be used as an incentive to encourage this. Therefore, schemes will be competing on their own merit; namely, if a DB OPS is seen as a better option than the state alternative then the individual can choose to opt out.

The state schemes should operate as a PAYGO scheme reinforcing intergenerational support. The state should reinstate the Treasury contribution and accept its responsibility to provide for its people in retirement after years of working and fuelling the economy. Part of the cost expected from these changes could be covered by increasing the upper tax band level from 40% to 50%, something the current Labour Party refuses to do. Further savings can be made by removing tax relief, currently said to be worth annually £19 billion to the private pensions sector (DWP, 2002, Cm. 5677, p.40). The principles behind such a system are little different to those proposed by Davies *et al* (2003, p.6), they argued that 'decent pensions for all are affordable in a growing economy and necessary in a society based on human rights. But to make it happen the public sector must take the lead'. This highlights that the extent to which a government chooses to spend on the welfare state is as much to do with political will and ideological outlook as cost.

Summing up, this thesis set out to examine the potential of current UK pension policies and proposals to provide future security in old age for the low paid. The simple answer to this question is that current policy cannot. This is because the change from socialisation to individualisation of risk cannot be sustained by those on low pay, who besides saving for retirement have competing demands to manage, and the private sector cannot fill the gap vacated by the state. As this thesis has identified, little research in the past has focused on this risk reallocation and its significance for those on low pay. It is generally assumed that the shift in risk is inevitable and that for many on low pay sacrifices will need to be made if they are to expect a decent standard of living in retirement. Yet such propositions ignore the structural inequalities that exist in society and assume that merely changing attitudes and awareness will suffice. It is the failures of this approach that this research has challenged. Interviews with those on low pay about their life experiences examined the conflict between their attitude and awareness of pension policy with their approaches and ability to save for retirement. These revealed a positive attitude towards saving and saving for retirement but an inability to save for most respondents. Moreover, the interviews revealed the complexity of low pay and the difficulties and stresses it places on people to make ends meet.

Still Labour persists with neo-liberal policy, a wanton disregard of the real structural inequalities that shape the lives of those on low pay. Currently, the Government presides over an economy supported by low wages. This is short term thinking and can only create a problem in the future as greater poverty in retirement will have to be paid for by the state through other means. For example, the proven link between poverty and increased ill-health coupled with the low paid being unable to afford to look after themselves will increase the need for National Health spending on residential homes, hospital treatment and social care. Moreover, increasingly elderly population will still have voting rights (grey power) and could easily in the near future reject a Party that chooses to ignore their plight, especially now that the pensions issue continues to rise up the political agenda and affects a greater number of people. Yet despite this, the rhetoric from New Labour is that it has limited ability to regulate the labour market in a globalised economy. But governments can make choices; namely, a low pay economy is not inevitable or the only way forward as the Nordic countries are showing. Those who want to truly help the poorest in society can choose a more egalitarian way forward and still have a successful economy.

POST SCRIPT

Summary of the Pensions Commission's recommendations

In December 2002 a Pensions Commission was appointed in order to address the adequacy of private pension saving and to advise on policy change, namely, is there a need to move beyond the voluntary approach? It concluded that 'faced with a growing proportion of the population aged over 65, society and individuals must choose between four options:

1. pensioners will become poorer relative to the rest of society; or
2. taxes/National Insurance contributions devoted to pensions must rise; or
3. savings must rise; or
4. average retirement ages must rise' (Pensions Commission, 2004, p.10).

It further suggests that as the first option appears unattractive then it has to be a mixture of the other three options (*ibid.*).

In November 2005, the Commission finally published their recommendations and based on these conclusions further argued that to increase savings into a private pension there is a need to limit the rise in means testing (see *op. cit.* 2005, p.17). This they argued can only be achieved by raising the retirement age, albeit over a thirty year period, from 65-68 and increasing state spending, currently 6.2% GDP to between 7.5% and 8.0% by 2045 (*op. cit.*, p.21). The Commission's aim does not advocate compulsory saving into private pensions but proposes a funded National Pensions Savings Scheme for those unable to access an OPS. This will be a low cost scheme, with an annual management charge of 0.3% and all employees will be automatically enrolled with the option to opt out; importantly the self employed will be able to join this scheme. The scheme would be financed by a total of 8% contributions from earnings between the primary threshold (the level of income at which tax and NICs become payable, currently £4,888 p.a.) and the UEL. The breakdown of this being 4% contributions from employees, 1% tax relief and 3% employer contributions (see *op. cit.* p.7 for more detail). The aim of this scheme is that based 'on reasonable assumptions about rates of returns and years of contributions this might secure the median earner a pension at the point of retirement of about 15% of median earnings'. This is to be underpinned by either an Enhanced State Pension or building on the BSP and the S2P to produce a flat rate first-tier state pension that would be at the current Pension Credit level (£109.45 for a single person) and this would then be annually upgraded with earnings. This, it is argued, limits the need for means testing and encourages savings into a private pension as the system is less complex and more understandable. The Commission's recommendation would prefer to make this first-tier provision universal, namely, based on residency as opposed to NICs which avoid the problems suffered by women and the low paid owing to incomplete working patterns. Further to this, they respond to the criticism that raising the state pension age will benefit the higher earners most by recommending that the BSP should in the future be claimed at 67, whilst the second-tier pension would be claimed at 69. 'People with low life expectancy would thus be able to receive at least a basic level of state pensions earlier than if one age had to be applied to both pensions' (*op. cit.*, p.25).

Finally in the area of incentives, the Commission does not recommend any changes in the short and medium term to the current tax relief regime; however, they do recommend that the contracted-out rebate is phased out gradually.

The benefits to the low paid

Clearly the Commission has set out some interesting recommendations that challenge current government policy. And as with other contemporary proposals, examined in chapter 7, it recommended that the first-tier pension needs raising to alleviate means testing, this as above stated would preferably be universal provision. But importantly it challenges the government's view on state spending allocated to pension provision. Whereas the government is trying to reduce GDP spending in the next 30 years or so, the Commission argues that this is not feasible if we are to achieve an adequate pension for all in the future.

More importantly, the Commission offers a funded second-tier provision that would be cheaper to administer and importantly have to be match funded by the employer. Employers are not compelled to contribute towards the SHP. However, the Commission has highlighted that the private sector has failed to fill the gap vacated by the state and now it is the state's responsibility to redress the failures in this area.

In the case of the low paid, the Commission recommendation is a 'mixed bag': improving the BSP and increasing state spending is clearly the right direction for improving the plight of the low paid. However, this will be paid for by longer working lives notably more disadvantageous to the low paid as they have shorter lifespans. The counter method, of allowing people to receive the BSP at 67, does nothing to alleviate this bias. The argument for raising the state pension age has been questioned in this thesis on the grounds of increased individual productivity over the last fifty years or so, increased number of women participating in the workforce and the exclusion of many from the labour market by the time they reach their mid-fifties owing partly to age discrimination found in the workforce. As Street and Ginn argued, the dependency ratio is a crude measurement (see 2001, p.35).

Furthermore, the state second pension would be replaced by a MPS that offers no redistribution to the lower paid when in payment. Even in the Commission's own words, the 15% IRR is an assumed return on median income based on today's projections and is far from certain. Moreover, they will require contributions over the best part of a working life to make such a return possible. The Pensions Commission recommendation *per se* looks like a compromise between the state and the private sector, one that will improve the plight of the low paid in one sense, as they would be less like to rely on mean tested benefits, but one that would be paid for by working longer and saving into a second-tier MPS, although this option is voluntary. Yet to truly help the low paid a far greater commitment to increase the percentage of GDP allocated to pensions will be needed along with the establishment of a decent state second-tier redistributive pension. So far the public have not been asked their opinion on state spending in this area. It is just assumed by the Government that welfare retrenchment is the way forward in some areas of social policy. However, pensioners are seen to have deserving characteristics and in such areas welfare state spending is seen as important (see Page, 1996, p.139).

On the positive side it can be argued that the Commission has challenged government thinking and effectively questioned its approach towards pension policy, namely, the need for the state to take greater responsibility and the requirement to compel employers to contribute towards their employees' pensions, albeit at a low rate. This is something the government has failed to acknowledge to date. It has welcomed the Commission's recommendations but already seemingly rejected them. As Ashley Seager argues, [the Pensions Commission recommendations are] unlikely to make the statute book and the most serious opposition is likely to come from the Treasury alarmed at the increased costs implied in the report, both in the short term from the universal pension and in the longer term ... from the basic state pension [proposed to] rise in line with average earnings rather than inflation each year' (Guardian Unlimited 2005, 30th November). Next year there is to be a National Pensions Debate, followed by a White Paper on pension policy. It will be interesting if the government takes on board any of the above recommendations.

APPENDICES

Leaflet sent out to organisations and/or companies

Participants Required

Source: The Pension Service (July 2003) http://www.pensionguide.gov.uk/

Would you like to take part in some research? I am a research student at Middlesex University and looking for volunteers willing to be interviewed about their approach to saving, and saving for retirement, who are aged between 30 and 50 and earning between £5.50 and £7.40 per hour. For those willing to participate, full confidentiality will be guaranteed and they will be treated anonymously in any written material.

Interviews will last approximately 40 minutes and held at a place and a time convenient to you. An expenses payment of £10 will be given to each participant for his or her contribution. The interviews will be carried out from January through to February.

For further details, please contact Marcus Whiting on 020 8411 5479 until 7 o/c weekdays or 020 8443 4765 during the evenings or weekends. I can also be contacted by e-mail: marcus1@mdx.ac.uk.

Example letter sent out to companies and/or organisations

Company's address

Middlesex University

Date....................

Dear XXXX

I am a student conducting research on current government pension policy, aiming to examine its effect on employees aged between 30 and 50, earning between £5.50 and £7.40 per hour. Therefore, I am looking for respondents in this category who are willing to contribute towards my study.

The research will investigate the respondents' approaches to both saving and saving for retirement. All employees who choose to participate will be guaranteed full confidentiality and treated anonymously in any written material. Interviews will be taped, but a person can feel free not to answer a question or withdraw from the interview at any time if they feel uncomfortable. Interviews will be held at a place of the respondent's convenience.

Further to this, your organisation will be guaranteed full confidentiality and no information linking your organisation with the respondents will occur. In addition, there is no intention that the interviews will take place during work hours; however, lunch breaks or after work may provide a suitable opportunity.

Interviews will take approximately 40 minutes. An expenses payment of £10 will be given to each participant for his or her contribution. The time schedule I have set for these interviews is from October through to November, but anybody wanting to participate after this time may still be considered depending on response.

As the Manager, I would be most grateful for your permission to approach your staff and would appreciate it if you could display the leaflets attached. I will be following up this correspondence within one week to discuss if you are willing to participate.

A summary of the findings will be available to you and the respondents on request after completion of my research; this is anticipated to be October 2005.

Yours sincerely,

Marcus Whiting.
Social Policy Research Student
Tel. 020 8411 5479
E-mail. marcus1@mdx.ac.uk

The interview schedule

QUESTIONNAIRE:							

Good morning/afternoon/evening: I am Marcus Whiting a research student from Middlesex University.

The aim of my research is to examine the suitability of current pension policy for employees aged between 30 and 50, earning between £5.50 and £7.40 per hour. It will investigate respondents' attitudes and approaches to saving, and saving for retirement. This interview will give you the opportunity to express your opinion on current pension policy. Furthermore, your taking part will make a valuable contribution to the study.

Everything you say will be treated confidentially. No names will be attached to any information you provide. You can withdraw from the interview at any point, or refuse to answer any question for whatever reason, as your participation in this research is voluntary.

The interview will take approximately 40 minutes.

WHO THEY ARE? –

Age:	30-39	40-50
Gender:	Male	Female
Marital Status:	Single (never married) Married (living with husband/wife) Married (separated from husband/wife) Not Married but living with someone as a couple Divorced Widowed	

Ethnicity:

White British		Chinese	
White Irish		Other Asian Background	
Other White Background		Mixed White and Black Caribbean	
Black or Black British Caribbean		Mixed White and Black African	
Black or Black British African		Mixed White and Asian	
Other Black background		Other mixed background	
Asian or Asian British Indian		Other ethnic background	
Asian or Asian British Pakistani		Not Known	
Asian or Asian British Bangladeshi		Information refused	

Industry in which employed: ----------------------------------

Job Title: ----------------------------------

Hours worked per week (PT if below 30) FT PT

Earnings (approx. per hour): to the nearest £1.----------------------------------

Social Classification: (not to be asked). A B CI CII D E

Highest Educational Qualification:

Higher Degree (PGCE Masters, PhD)	
First Degree (Bachelors) NVQ 4-5, HNC HND	
A levels / AS levels NVQ 3, Advanced level GNVQ	
5+ O levels, 5+ CSEs (grade1), 5+ GCSEs (grade A-C) NVQ 2, Intermediate GNVQ, BTEC/Edexcel	
1+ O levels/CSEs/GCSEs (any grades) NVQ 1, Foundation GNVQ Other Qualifications / C&G, RSA/ OCR	
No Qualification	

Do you currently own a property or are you renting? ....

How many persons do you live with that are your responsibility? ....

Of these, how many are children under the age of 18? ....

<u>Attitude and Awareness</u>

(Firstly, I would like to ask you about your attitude towards saving)

1. Which of the following statements best describes your view on saving?

(i) You should always try to save some money for a rainy day.
(ii) You should save some money at some stages in your life but not all the time.
(iii) You should live for the day and not worry about saving for the future. (Why do you think this?)

(a) Why do you think you have this view on saving?
[Prompt] Influence of parents; age; family status; employment status or other experience.

(b) Have you felt differently in the past? When? Why Change? How?
[Prompt as appropriate]
- Opinion when young and single **(If single (never married) and no children go to (c))**
- Opinion when married
- Opinion when had children
- Opinion when children left home

(c) Do you think you may feel differently in the future?
[Prompt] what stages (see list above), why?

2. Are you saving for anything in particular at present?
[Prompt] holiday, car, something for the house etc.

3. To what extent have you thought about saving for when you get older?

(a) How important do you regard saving for retirement?

4. Do you currently contribute towards a personal or occupational pension?
*** If no go to question 4(i).**
(a) When did you start paying into it? (Age)
(b) Why did you start a pension then?
(c) Did you get any advice when you started paying into it? Who from? How helpful?
(d) Roughly, how much do you pay monthly?

(e) How much does your employer contribute towards it monthly?
(f) What benefits do you hope to get at the end of the day?
(g) What do you believe this depends on? **(NB. Respondents understanding of scheme)**

[Prompt, your average earnings / final salary (defined benefit), years working for your present company, or on the outcome of your contributions invested on the financial market (defined contribution)]

(h) Do you feel you know enough about the scheme?

Go to question 5.

(i) [If no] have you been offered a PP or OPS?
[Prompt] Namely, at place of work, from bank / building society / financial advisor etc..

(j) Have you spoken to anybody about pensions? [If yes] who?
[Prompt] Friend, Family, Employer, Financial Advisor, Bank or other

(k) Where would you go for pension advice?
[Prompts as above]

(Now I would like you to tell me what you know about the following pension schemes:)

5. How aware are you of the following pension schemes, the BSP, SERPS, PP and the OPS?

(a) What do you know about them: how are they financed and work?

(b) Have you any opinion on these schemes: do you see them negatively, positively or feel unaffected by them?

(c) Do you feel that you have good understanding of these schemes?
(d) [If not] Why do you feel this to be the case?
(e) What would you like to see carried out to improve this?
(f) Are you aware of the government information that is accessible on the Internet?

<u>Approach and Ability</u>

(The following questions are concerned with your approach to saving for retirement and how secure you feel about this:)

6. Are there other forms of financial support that you are relying on for your retirement?

[Prompt]

(a) Such as financial savings:
- Banks, building society savings accounts
- National savings, premium bonds
- Other accounts such as TESSAs, PEPs
- Stocks, shares, bonds unit trusts investments
- Property (possible re-mortgaging; renting etc.).

(b) Alternatively, financial support:
- Family: intergenerational support
- A partner
- Inheritance.
-

7. How financially secure do you feel at present? Why is that?

(a) How do you feel about that?
(b) How secure is your job at present?
(c) How does this make you feel?
(d) How important is it that you feel financially secure? Why is that?
(e) Does this affect your behaviour towards savings, or saving for a pension?
[If Yes] In which way does this affect you?

HOW THEY GOT THERE? - LIFECYCLE

8. Have you always been in your current job?

If yes, single (never married) and no children go to Q. 9.

(a) [If no] what other jobs you have had?
(b) Did you experience a period/or periods of unemployment?
(c) Was this/or were these frequent experiences?
(d) And/or long term (i.e. more than six months)?
(e) Have any of these previous jobs offered comparatively better wages than your current post?
(f) [If yes] why did you leave this job?
[Prompt] Redundancy, company closed down, family commitments, relocation, a change of career, or other reason?

If single (never married) and no children go to Q. 9.

(g) Have you spent time out of work owing to raising a family?
(h) How did this affect your career ambitions?
(i) Have you been able to find stable employment after these commitments?
(j) Is this full-time or part-time work?

9. Have you in recent years undertaken any further or higher education to improve your employment status?

If no go to 7(b).

(a) [If yes] What type? Do you feel that this improved your employment status?

Now go to 10.

(b) Has this been because of commitments?
(c) [If yes, prompt], what type, financial, family, employment?
(d) [If no] Have you considered further training?
(e) [If no] any other particular reason why not?

10. Have you experienced other personal circumstances that have affected your career path?
[Prompt] illness, family issue, or other?

11. Did you contribute towards a personal or occupational pension in the past that you do not use now?

If no go to 12

(a) What type pension was it?
(b) Why did you choose this method?
(c) When did you take it out and how long?
(d) Did you receive any advice when you took it out? Who from and how helpful?
(e) Roughly how much did you save during that time?
(f) When did you stop saving that way? Why?
(g) Did you receive any advice when you ended it?

12. Have you in the past had any financial savings that you do not have now?
[Prompt, namely in]

- Banks, building society savings accounts
- National savings, premium bonds
- Other accounts such as TESSAs, PEPs
- Stocks, shares, bonds unit trusts investments

(a) Why has this changed?

13. How financially secure did you feel in the past?

(a) Why is that?
(b) How did you feel about that?

(This is now the final section of the interview and will ask you about your:)

FUTURE AIMS AND HOPES

14. How much money would you like to live on in retirement?
[Weekly pension]

15. What are your hopes in retirement?

[Prompt] Relax, to travel etc..

16. Do you know what level the current BSP is?

[Tell them that it £77.45 per week for an individual]
[If currently living with a partner tell them that this is £123.80 per week for a couple]

(However, because of the way the BSP is upgraded, by 2030 it will be worth the equivalent of £50.00 per week in today's prices for an individual, and £80.00 for a couple. The BSP is the '*key building block of the pension system*'; therefore -)

17. Do you think you would have saved enough? Why/not?

(a) How much are you willing to/or could you pay per month towards a pension?

(b) Do you think this is sufficient?

18. Who do you think, from the following, should have the greatest responsibility for providing a pension, the state, the private sector or the individual?
What role would you like to see the state play, the same, less or a greater role?
(a) In what way?
[If the respondent believes that the state's role should be increased - ask]

(b) How much would you be prepared to pay per month, via income tax or NICs, if it were necessary to pay extra, to increase the BSP by say £25?

[Explain that this level would bring the BSP above means testing - see overleaf].

(c) What role do you think that the employer should have towards their employee's pension?
(d) In what way? [Prompt; act as advisors on pensions that are available; act as pension providers]
(e) Do you think that employers should, or should not be compelled to contribute towards pensions? To what degree? [Prompt, the same, or more or less than employees]

19. The government has introduced the MIG; a means tested benefit: £102.10 per week for an individual and for a couple £155.80.

(a) What is your view on this and means testing per se? Why?
(b) Would you be comfortable to claim a MIG if you fell below this level?

20. The government has investigated the option of making contributing towards a pension compulsory for those that do not save.

(a) What are you views on this approach?
(b) Do you agree with this approach?
(c) [If yes] To what extent would you like to see compulsion?

21. Are you aware of the current government's proposals, the S2P and the SHP?

(a) [If yes] have you any opinion on them?

[If knowledge is sufficient on the SHP ask]
(c) Would you consider taking out a SHP?

(Finally, I would like to ask you your view on delaying retirement)
22. The Government aims to reward those people who defer their retirement; would you consider this?

(a) Do you believe that these overall changes will help improve, for you, security in old age?

24. Are there any further comments you would like to make concerning the questions asked in this interview?

25. Do you have a friend or know someone, in the appropriate age and earnings category, who would be interested in taking part in this research?

Well that is the end of the interview. Thank you for taking part and sparing the time. Again, I would like to confirm that everything you have said will be treated confidentially. No names will be attached to any information that you provided.

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Despite government pension initiatives, people on low pay still face retirement in poverty, argues Marcus Whiting. Marcus is a PhD student at Middlesex University, seconded to the LPU on an ESRC CASE studentship.

Pensions and the low paid

New Labour's pension policy claims to protect the poorest. Tony Blair has said: "We are building a new contract for pensions between the State, the private sector, and the individual. We believe that those who can save for their retirement have the responsibility to do so, and that the State must provide effective security for those who cannot." (DSS, 1998, p.iii).

This suggests that Labour intends to find a balance between helping the neediest whilst expecting others to fulfil the responsibility to save.

Such intentions appear little different from the past. For example, there seems no real effort to reverse previous Conservative policies to benefit the low paid.

Thus, restoring the state earnings related pension scheme (SERPS) to its pre-1986 status and reinstating the index linking formula (to the higher each year of average earnings or prices) for the basic state retirement pension (BSRP) would have been an improvement.

The government's proposals will retain the BSRP, but it will continue to be linked to retail prices. It is currently £72.50 a week for a person with full national insurance (NI) contributions. A person without full contributions will get a reduced BSRP.

The state second pension (S2P) is to replace SERPS and will be a flat rate benefit in addition to the BSRP. SERPS, the present second tier state pension, is calculated at 20 per cent of an average working wage throughout a 49-year full working career. Prior to the 1986 Social Security Act, SERPS was set at 25 per cent of an average working wage and calculated over the best 20 years of working life.

The S2P has been designed to be more beneficial than SERPS for those earning less than £10,500 pa. At this point workers will receive 40 per cent of earnings (twice the rate of SERPS).

All contributing employees earning up to this level will be treated as if they had average lifetime earnings of £10,500 pa. Above this level and below £24,000 a worker will receive 10 per cent of earnings (half SERPS).

It is expected that the S2P will provide the low paid with a sufficient pension and avoid the problems caused by the personal pension (PP). The PP was favoured by the last Conservative government and was used to encourage workers to withdraw from either SERPS or their occupational pension (OP). It is likely to leave many on low incomes with little or no second pension, as their incomes are insufficient to benefit from private sector provision.

The PP is a defined contribution scheme and the only guarantee is the amount a person puts into it. The final pension fund, on which the annuity is calculated, depends on the vagaries of the market; even middle and high income earners lost out considerably in the recessions of the mid 1980s and early 1990s.

The OPs, however, were predominantly defined benefit schemes. These offered as a pension a guaranteed proportion of a person's annual wage. They could be calculated on a final salary or on average earnings. The accrual rate was usually either an eightieth or a sixtieth of an annual wage per year worked.

Importantly, OPs were often supported by generous contributions from the employer.

In addition to the S2P, Labour has introduced the stakeholder pension (SHP). This is aimed at those earning between £10,500 and £24,000 pa, as it is expected that they will opt-out of the S2P.

The new SHP will "help many more middle earners to save for a comfortable retirement" (DSS, 1998, p47). This private sector funded pension will be more strictly regulated and, it is claimed, will avoid problems such as misselling.

The SHP will be made available to anyone currently without an OP or PP. Employers who do not offer an occupational scheme will be required to identify an SHP and to facilitate access to it for their employees.

They are also expected, at the request of their employees, to deduct pension contributions direct from pay (*ibid* pp 57-58). However – and importantly – employer contributions will not be made compulsory, beyond the NI contracted out rebate.

For those who have insufficient NI contributions and who are likely to have suffered many years of unemployment, there will be a minimum income guarantee (MIG); currently set at £98.50 for a single person. This is simply income support that will be means tested.

At first sight, the above proposals look well structured with a balance between public and private sector support. On closer scrutiny it can be seen to be falling short of its claims – that is to support the low paid. The current arrangement simply continues the poverty experienced by the lowest earners during their working lives through into retirement.

Significantly, the £10,500 cut-off point is based on the government's calculation of low pay. This is well short of the LPU figure, currently £14,400 pa. The Council of Europe's decency threshold is £15,000.

With such differences in definition, it is not surprising to find the government's proposals inadequate. For example, the Family Budget Unit calculated in January 1999 that a single pensioner with a car would require at least £148.25 a week.

Calculations based on the new S2P show that an individual earning £9,000 pa for 49 years would acquire a second pension of £44 per week (P Agulnik 1999, p13).

On top of the basic pension, which was £66.75 in 1999, this would give a £110.75 a shortfall of £37.50.

New Labour sees the S2P as a remedy to SERPS, which it believes reinforces wage inequalities. But it has important problems. The S2P is still tied in with the low level of the BSRP. Yet, as the National Pensioners Convention states, had it still been linked with earnings it would have been worth £101.15 by 2002.

The BSRP has been linked to prices since November 1979 but Labour's April 2002 budget set its annual increase in 2003/4 to £100. This is £1.92 a week and although higher than the predicted rise in prices of approximately 80p, it is still well short of the predicted rise in earnings. The projected average earnings increase of 3.8 per cent would raise the single person's basic pension by approximately £2.75.

Importantly, the BSRP will increase at a much lower rate than the earnings indexed MIG. During 1991-2001, the retail price index increased an average 2.76 per cent a year; average earnings went up by an annual 4.44 per cent.

Hence, the S2P will devalue against the MIG as it is linked to the BSRP. Simply projecting ten years ahead based on the last decade's earnings and retail prices would find the MIG at £151.55 per week in 2011 and the BSRP £95.18.

The current difference between the MIG and the BSRP is £26 a week (£98.50 and £72.50 respectively). The projection indicates a further £31.37 decline. This in effect is what has happened to SERPS after the 1986 Social Security Act, which devalued the state pension to encourage take-up of private pensions.

The S2P is another expensive layer added to the already complex state pension system. Even if it were felt that SERPS was not on its own adequate to remedy poverty, there were reasons to retain it. As the NPC argues, "[Labour] acknowledges that SERPS is an efficient and cost-effective second pension for lower earnings" (1999, p12).

In its original format SERPS, attached to an earnings related BSRP, would arguably generate a lower income than the S2P for those earning less than £10,500. Yet, the weighting of the earnings level within SERPS could have been adapted to benefit the low paid.

Nevertheless, it is the level over £10,500 that is of issue. Still regarded by the LPU as low paid, those earning between £10,500 and £14,400 will be worse off.

This is only part of the story: it is well documented that the low paid often get caught up in the low pay – no pay cycle. Today's labour market has an emphasis on flexibility which is associated with frequent periods of unemployment.

Hence it is unlikely that many who are low paid will achieve the necessary maximum working life needed to take home a respectable pension. Many pensioners will be relying on the means tested MIG. Thus the best 20 years principle of the original SERPS should be reinstated.

As the NPC suggests: "Even a modest improvement in SERPS might make it attractive not only to low-paid workers but to others who recognise its advantages over the private alternatives. [But this would contravene] the government's fundamental aim of minimising the role of the state in pension provision and maximising the role of private funded pension schemes." (1999, p13).

This leads to the criticisms facing the SHP. The concept behind it seems misjudged. Labour states that it will avoid the misselling that blighted private pensions in the 1980s and 1990s by increasing transparency.

Yet by aiming at those on £10,500 – £16,000 they are almost certain to repeat the process. Deborah Cooper, a member of an Institute of Actuaries task force on pensions, said: "On earnings that won't grow beyond £15,000 in today's money, it's probably not worth taking out a SHP." (*The Economist*, 5 April 2001).

Former welfare minister Frank Field suggests that for those earning up to £16,000, the S2P is the safest option (*The Guardian*, 17 August 2001).

Labour also claims that the SHP will be cheaper than the personal pensions of the past with the Financial Services Authority responsible for regulating its sale and promotion. It is said to cost a maximum 1 per cent a year of the total accumulated in the stakeholder fund. This over the life of a pension means the seller will take about 20p of every pound saved.

More importantly, the SHP is a defined contribution scheme and, like its predecessors, will be vulnerable to the vagaries of the market. Tax incentives will entice people out of the state pension scheme and into the SHP, which for many will be a costly mistake.

The irony here is that while the government tries to encourage low-income earners onto the SHP, directors of large companies insist on final salary pensions. If directors with their knowledge of the financial market prefer the defined benefit scheme it would suggest that they consider most defined contribution pension scheme to be too great a risk.

Early take-up of the SHP has been low, particularly amongst the government's target group. So far, it has been favoured by the higher earners and often used as an additional pension. As the Association of British Insurers has found, while the SHP has generated interest among all income groups, only around a third of those likely to take one out will be on a moderate income (IRS, 15 Oct 2001).

Labour plans to tackle such problems with the pension credit, coming in 2003. Currently, pensioners on the MIG lose £1 of benefit for every extra £1 of second pension or earned income. The new system will be at least 60p above the MIG for every £1 of second pension, savings or income above the level of the BSRP (see DSS, 2000, p29).

The pension credit, in parallel with the MIG top up, is a progressive system. At the lowest level of £78 (equivalent to a £1 saving above the BSRP) the combined benefit is £22.60, whilst at the upper level of £134 (equivalent to a £57 saving) it will be only 20p.

This attempt to encourage saving does not consider the ability of the low paid to save, but appears to accept that the BSRP is at an insufficient level. If it were to be reinstated to £101.15 (see above) the pension credit would not be required and low-income earners would be better off because the BSRP would be above the MIG and remain so.

For example, £25 saved on top of the BSRP would simply give a total pension £126.15. Under the pension credit scheme, such a saving only amounts to £115. This has led to charges that the scheme is just a 40 per cent tax on savings (*The Observer* 8/4/01).

In effect, Labour's pension proposal simply redistributes the risk of the market towards the individual. This exposes all but the well off to a retirement of insecurity and for the lowest paid a continued life in poverty.

The government needs to take back responsibility for the low paid. Lower earners most need the state in retirement.

The BSRP has fallen below the level Labour considers a minimum income, yet it refuses to raise it. It cites cost as the reason, but the NPC points out that growing income from national insurance will easily meet the cost of restoring the earnings link.

Significantly, anyone earning £15,000 or below today should have the option of a decent state pension. It may be that the S2P will benefit more low paid workers than the current scheme but these changes could have been introduced into SERPS. More needs to be done and whilst Labour continues to define low income well short of the European decency threshold, resolving poverty will remain problematic.

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Risk and Return: The 'Crisis' of the Final Salary Pension Scheme, its Causes and Implications

Tony Cutler, Programme Director, M.Sc. Health Services Management, Royal Holloway, University of London
Barbara Waine, Honorary Research Fellow, Department of Social and Political Science, Royal Holloway, University of London
Marcus Whiting, Research Degree Student, School of Health and Social Science, Middlesex University

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Introduction

Pensions policy is usually regarded as a quintessentially 'dry' issue. However, the aim of this paper is to explore a development which has made the topic eminently newsworthy. This is the decline of the final salary occupational pension. The paper seeks to set the discussion of this issue in the context of the political economy of British social democracy at the beginning of the 21st century. The paper is divided into four parts: the first examines the significance of the final salary occupational pension and tracks its recent decline in the UK; the second considers some of the key arguments which have been advanced by companies which have closed schemes and by commentators in discussions of these closures. In this section doubts will be raised on these arguments and in the third section a (tentative) alternative explanation for the closures is advanced; the fourth section seeks to set the changes to occupational pension provision in the context of New Labour's overall approach to pensions policy and the political economy underlying this policy.

Final Salary Occupational Pensions: Charting Decline

In occupational pensions terminology a standard distinction is between 'defined benefit' (DB) and 'defined contribution' (DC) schemes. In the former a benefit level at the point of retirement is guaranteed. This is determined by the scheme's accrual rate i.e. the percentage or fraction of pensionable earnings which the member obtains for each year of pensionable service; and the length of the pensionable service (Government Actuary's Department, 2002a: 25). Thus a member with 30 years service in a scheme with a 1/60th accrual rate, often seen as an indicator of a 'good' scheme (Labour Research Department, 2002), is entitled to half pensionable earnings on retirement. Final salary schemes are the most common form of DB provision. The term is used to refer to the fact that the pensionable earnings used to calculate the pension are at the end of the member's working life e.g. the last year or an average of the last three years.

DC schemes, which are also termed 'money purchase schemes', commit the employer to make a specific or 'defined' contribution, normally a percentage of wage or salary on behalf of the member. Under DC schemes no specific benefit level is promised but the pension will be determined by the level of contributions and the investment return on those contributions (ibid.: 26). The crucial difference relates to the distribution of risk. With both types of scheme it is the common pattern to have 'employer' and 'employee' contributions which are invested. However, in DB provision benefits are 'independent of the contributions payable' (ibid.: 25). Thus the employer is committed to providing the specific benefits stemming from the application of scheme rules. A corollary is that, there may be circumstances in which employers may be required to make additional contributions over and above the regular percentage of salary contributed to the pension fund. This is to ensure that the liability, to deliver a given benefit level, is attained. A period in which this operated was the mid 1970s. Scheme liabilities were increased because of escalating wages reflecting high levels of inflation. However, the slowdown in economic growth caused a collapse in pension fund rates of return. In 1974, for example, wage inflation in the UK was running at 29 per cent whereas the estimated rate of return of private sector pension funds was negative at –32.6 per cent (Hannah, 1986: 79 and 147). This squeeze meant that scheme solvency was sustained by substantial contributions from major corporations. Such contributions were made, for example, by Barclays, BP, Commercial Union and ICI (Kincaid, 1975: 152; Stone, 1975: 19).

It is in this respect that DB provision has often been seen as characteristic of the 'good' employer since the risk of providing the pension benefit is assumed by the employer. In contrast, with DC schemes, employer liability is limited to the contribution specified as, under DC, the risk is shifted from the employer since there is no commitment to a guaranteed benefit (Lane, Clark and Peacock, 2002).

In the UK context DB schemes have dominated private occupational pension. This is illustrated in Table 1 which is drawn from the (provisional) results of the most recent survey of private sector occupational pension schemes by the Government Actuary.

Table 1: Active Membership of UK Private Sector Occupational Pension Schemes by benefit type and scheme size, 2000, Millions

Size Band	Defined Benefit	Defined Contribution	Hybrid	Total
10,000+	2.4	0.1	0.1	2.6
5,000-9,999	0.5	0.0	0.0	0.5
1,000-4,999	0.8	0.3	0.0	1.1
100-999	0.7	0.2	0.0	0.9
12-99	0.2	0.1	0.0	0.3
2-11	0.0	0.2	0.0	0.2
Total	4.6	0.9	0.1	5.7

Source: Government Actuary's Department, 2002a, figures may not sum due to rounding.

As the table indicates, DB schemes not only account for roughly 80% of active members (i.e. scheme members who have not retired) but such schemes were the form of provision identified with the largest schemes (and companies). However, an emerging phenomenon has been the large number of 'blue chip' employers which have announced closures of final salary schemes. These closures have taken a variety of forms. The most common has been to close the final salary scheme to new members. Such new entrants are offered membership of a DC scheme. Less frequently the DB scheme has been closed to existing and new members, a policy adopted at Iceland and Ernst and Young (Timmins, Urry and Skypala, 2002).

An indicator of the extent of the shift away from final salary provision is provided by the recent survey undertaken by the Association of Consulting Actuaries (2002) and based on research undertaken in August and September 2002. This survey obtained 336 responses from firms employing 1.8 million people and covering a range of firm sizes from under 10 to over 50,000 (ibid.: 2). Table 2 summarises answers to a question asking the respondent to indicate what change had been made to pension provision over the last five years.

Table 2 Changes in Pension Arrangements over the last 5 years: Association of Consulting Actuaries, 2002

Change Made	% of Respondents Making Change
Closed Final Salary scheme to new entrants	46%
Closed Final Salary scheme to future accruals	9%
Moved more employees to money purchases schemes	14%
Set up mixed money purchase/final salary scheme	9%
Set up career average scheme	1%
Reduced percentage of employees covered by pensions	5%
Wound up one or more schemes	8%
Moved to more flexible benefits	9%

Source: Association of Consulting Actuaries (2002); total sums to over 100% because more than one answer per respondent could be made.

The evidence in the table makes clear the extent of final salary closures. The significance of these closures for the long term pattern of occupational provision has also contributed to the discussion of final salary schemes on the 'front' rather than 'financial' pages of the press. This raises the question as to why these changes have occurred and, in the next section, the aim is to survey and evaluate some frequently cited explanations of this recent trend.

Explaining the demise of the Final Salary Scheme

In this section three types of explanation are analysed. The first refers to regulatory factors and in particular to changes in accounting standards for pension announced in Financial Reporting Standard (FRS) 17. Arguments referring to these regulatory changes suggest that corporate dissatisfaction with these regulations is the principal reason for the closure of final salary schemes and some companies which have closed final salary schemes have 'indicted' such changes. The second type of argument refers to changing labour markets and sees final salary schemes as a function of a 'jobs for life' view of the labour market which is now outmoded. Finally there are demographic arguments which suggest that increasing life expectancy and its implications for pension scheme liabilities are a key determinant in leading major corporate players to abandon final salary provision.

Responding to Regulatory Changes? FRS 17

Financial Reporting Standard (FRS) 17 is a new standard for accounting for retirement benefits introduced by the (UK) Accounting Standards Board. Initially it was designed to be a mandatory accounting standard by 2003 though this implementation timetable has been delayed (Lane, Clark and Peacock, 2002: 4). Accounting for retirement benefits involves calculating the value of assets and liabilities on the basis of various long term assumptions. Thus, on the assets side, this includes projecting expected long term rates of return on investments, in, for example, equities, corporate bonds and government securities. On the liabilities side assumptions need to be made regarding the expected annual rate of wage/salary increase since this will determine, for example, 'final salary' levels. Estimates also have to be made regarding likely increases in pensions in payment (for an example see British Telecom (BT) Group, 2002: 115). FRS 17 requires that 'pension fund actuarial gains and losses including investment returns varying from the assumed returns' will be recorded in the annual statement of recognised gains and losses (Accountancy: 127). The controversy around this standard relates to the context in which it has been introduced.

Two related features are central here. The first is that pension funds in the large companies which have tended to run final salary schemes have a large proportion of their investments in equities (for examples see Lane, Clark and Peacock, 2002: Appendix 3). The second key feature is the recent sharp falls in the major stock markets (Labour Research Department, 2002: 15). The result, under the FRS 17 regime, is that long term expected rates of return on equities will exceed the *current* rate of return in depressed equity markets. FRS 17 requires that any actuarial losses be stated in the company's annual report and accounts as a pension fund deficit. As was pointed out above, FRS 17 is not currently mandatory but some companies have included a statement of pension fund surpluses/deficits on an FRS 17 basis. BT (Group) is one of these companies and, as its Annual Report and Accounts for 2002 points out, the pension fund deficit identified in the accounts '...is largely dependent on the strength of equity markets at the balance sheet date and is expected to be volatile' (BT Group, 2002: 46). The 'volatility' stems from fluctuations in equity markets; thus a stronger equity market to that currently prevailing would boost pension fund asset values and could eliminate an actuarial deficit.

The significance of FRS 17 for the closure of final salary schemes might seem to be indicated by corporate responses to the new standard. Thus, for example, Ernst and Young, Iceland (Timms, Urry and Skypala, 2002) and Dixons (Smith, 2002) are amongst the companies which have directly indicted FRS 17 as a major reason for the closure of their final salary schemes. Also, as Table 3 indicates, in the National Association of Pension Funds (NAPF, 2001) survey for 2001 (the survey, undertaken in Autumn 2001 and referring to the situation in March 2001 covered schemes with 6.7 million active and deferred members) over three quarters of respondents thought that the introduction of FRS 17 made offering a DB scheme less attractive (ibid.: xiii).

Table 3: Responses to the proposed introduction of FRS 17 on employers offering a defined benefit (DB) scheme, Private Sector Schemes, 2001

Impact of Proposed FRS 17 on employer offering DB scheme	Number of Schemes	Percentage of Schemes
Makes offering DB more attractive	10	3%
Makes offering DB less attractive	315	79%
Makes no difference	73	18%

Source: National Association of Pension Funds, 2001

One reason for attributing this effect to FRS 17 is that the requirement to show, under current stock market conditions, substantial pension fund deficits reflecting current asset values may operate to undermine investor confidence in the companies concerned. An example of such a view is the senior policy analyst at the Confederation of British Industry's view contention that 'people look at FRS 17 and think that the [pension fund deficit] is how much needs to be put into the fund' (Tassell, 2002). However, this is a rather strange argument. The use of the verb 'think' indicates that the idea that FRS 17 deficits must be immediately corrected is a misconception. Under FRS 17 such a deficit relates to *current* investment returns. There is no presumption that such current returns are indicative of a *long term* changes in the expected rate of return.

It was pointed out above that some companies have directly cited the introduction of FRS 17 as a reason for winding up their final salary schemes. Whatever the bogus logic of such a position this might seem to be explicable if investors, as the CBI senior policy analyst suggests, *perceive* FRS 17 deficits as increasing the risk of investing in the company. If this were the case it might be expected that closure of final salary schemes ought to be associated with risk factors 'indicated' by FRS 17 disclosures because companies wish to avoid a loss of investor confidence. Broadly such risk factors relate to two features: the FRS 17 'ratio', that between the market value of pension fund assets to liabilities; and the size of the pension scheme relative to the size of the company. This would involve the 'investor' view that risks would be increased by an FRS 17 actuarial deficit and this risk associated with special contributions would be greater the larger the size of the scheme relative to the capital value of the company. Data on this issue is available in the Lane, Clark and Peacock 'Accounting for Pensions' Annual Survey for 2002. This is a survey of FTSE 100 companies and Table 4 shows evidence on the two 'risk' factors for ten companies which have closed their final salary schemes.

Table 4: FRS 17 'Risk' Factors: Selected FTSE 100 Companies which have closed their final salary scheme

Company	Size of Scheme relative to size of company*	FRS 17 Ratio**
ICI	N.A.	96%
Rentokil Initial	N.A.	103%
Lloyds TSB	103%	105%
Barclays	76%	103%
GlaxosmithKline	75%	89%
AstraZeneca	49%	80%
HSBC	40%	88%
Legal and General	32%	109%
Abbey National	27%	96%

Source: Lane, Clark and Peacock (2002) *scheme size in terms of assets or liabilities whichever is larger as a percentage of company net asset value; **market value of assets to liabilities disclosed under FRS 17

As can be seen from the Table, it is difficult to argue that closure of these schemes is associated with risks deemed to be associated with final salary schemes. Thus closures have occurred in schemes where the value of the scheme exceeds that of the company (Lloyds TSB) but also where it is under one third of the company value (Abbey National, Legal and General). Closure has occurred in schemes with a (current) actuarial deficit (ICI, HSBC, Abbey National) but also where there are surpluses (Rentokil Initial, Lloyds TSB, Barclays, Legal and General).Thus there are difficulties in seeing FRS 17 as a crucial determinant of the closure of final salary schemes.

The End of 'Jobs for Life'?

A second type of argument is that employers are responding to a fundamental change in the labour market (Incomes Data Services (IDS), 2002). From this standpoint final salary schemes are premised on long term employment relationships with a single employer or a 'job for life'. Such patterns of employment were never universal and because of their lack of portability final salary schemes also had inequitable effects on frequent job changers.

However, with increasing employment flexibility there is a disjuncture between the assumptions behind a final salary scheme and the *general* conditions prevailing in the labour market. There is another implication of such arguments. Seen in this light employer closure of final salary schemes may confer a benefit for workers by adjusting pension provision to flexible employment patterns.

At its simplest such arguments work with a schematic opposition between a past of stable long term employment and a current pattern of 'flexible' short tenure employment. Put in such a schematic form this is highly questionable. Thus, for example, median job tenure in the UK in 1975 was 4.9 years and in 1995 5.7 years (Gregg and Wadsworth, 2002: 116), these were years which are comparable in the sense that ratio of vacancies to employment were similar, for the impact of this macro economic feature see ibid.: 118). Nevertheless there is evidence particularly in relatively long tenures of decline in job stability. Thus, for example the percentage of men with job tenures in excess of 10 years fell from 52.3% in 1985 to 47.8% in 1995 and for women without children the respective figures were 42.9% and 36.7% (ibid.: 118). In contrast the percentage of women with children with such relatively long job tenures has increased and this has been particularly marked for women with children under 5 (ibid.).

However, even if there is some evidence of the decline of long tenured employment it is not clear that the logic of closing of a final salary scheme is compelling if the object is to benefit the employee by adjusting to an increase in job changing . Arguably a more logical approach would be to offer a choice between DB and DC provision which could be taken up according to the worker's employment pattern and preferences. However, to offer a genuine choice would suggest that is on offer is alternative forms of scheme which are in other key respects comparable. However, this is in contradiction with a regular and consistent finding on DB and DC schemes. Tables 5 and 6 are drawn respectively from the Government Actuary Department's survey of private occupational pension schemes and the more recent, though smaller Association of Consulting Actuaries survey.

Table 5: Scheme contributions as a percentage of earnings by scheme size and type, Government Actuary Department's survey of private sector schemes, 2000

Size band (total members)	DB Employee contribution	DB Employer contribution	DB Total	DC Employer contribution	DC Employee contribution	DC Total
10,000+	5.2	11.4	16.6	*	*	*
5,000-9,999	4.6	10.4	15.0	*	*	*
1,000-4,999	4.8	10.6	15.4	2.7	3.2	5.9
100-999	4.8	10.7	15.5	4.1	4.9	9.0
12-99	4.9	11.8	16.7	2.8	6.1	8.9
2-11	10.0	13.0	23.0	4.1	7.7	11.8
Total	5.0	11.1	16.1	3.4	5.1	8.5

Source: Government Actuary's Department's 2000a *too few responses to give valid results, figure may not sum to totals shown due to rounding.

Table 6 Average Employer contributions by scheme type, Association of Consulting Actuaries survey, 2002.

	Employer's Contribution	Employee's Contribution	Total
Final salary scheme	13.1%	4.5%	17.6%
Occupational money purchase	5.2%	3.5%	8.7%
Group personal pensions	5.6%	3.8%	9.4%

Source: Association of Consulting Actuaries (2002).

Clearly the contribution terms on which DB schemes are offered are generally much more favourable than in their DC counterparts. This evidence would thus appear to be inconsistent with a view that a shift to DC is beneficial to the employee. DC schemes do not just differ in form to DB but also in contribution level.

A Response to Demographic Change?

The third form of argument is that final salary closures are in part driven by demographic changes. The logic of this position is that increasing longevity pushes up the costs of final salary provision and that closure of such schemes is a means of escaping this demographically driven 'burden'. One aspect of this argument is unproblematic namely that there has been an increase in longevity. This is illustrated in Table 7 which shows trends in life expectancy at birth.

Table 7: Life Expectancy at Birth: United Kingdom, Selected Years

Year	Male Life Expectancy at Birth	Female Life Expectancy at Birth
1981	70.9	76.9
1991	73.2	78.7
2000	75.5	80.3

Source: Government Actuary's Department (2002b)

A more contentious issue is how far improvements in life expectancy can go. UK levels are, for example, lower than those prevailing in Japan (life expectancy at birth 77.6 years male, 84.6 female) Government Actuary's Department (2002b: 22*)* and in a number of other European countries (ibid.). Reflecting the potential for further improvements the Government Actuary's Department has projected an increase in male life expectancy at birth to 78.6 years and female 82.8 years in 2021 (ibid.: 27). Furthermore the 'problem' is exacerbated for final salary schemes. Membership of such schemes is not representative of the population as a whole but is skewed towards higher income groups (New Earnings Survey 2002). A consequence of this is that mortality rates of occupational scheme members (which as was shown earlier were predominantly final salary schemes) is generally lower than those for the population as a whole (Government Actuary's Department, 2002c, para. 3.12; Incomes Data Services, 2002).

However there are difficulties in sustaining a claim that demographic trends are engendering closure of final salary schemes. Such trends mean that *at a given defined benefit level* the overall costs of providing a final salary scheme will increase. Yet an assumption that the demographic trend is the direct cause of DB scheme closure involves a non sequitur. The demographic trends do not determine the corporate policy response with respect to pension provision. Thus, for example, the company could absorb this cost in a higher employer contribution; it could share the cost with current employees by increasing both employer and employee contributions; or it could revise benefit levels in retirement by introducing a less favourable accrual rate. Given the lower employer contributions and the risk transfer effects of DC schemes, closure of DB provision is one way of responding to the demographic changes but it is an option amongst many.

Thus there are difficulties with these various accounts of the closure of final salary schemes. This raises the question of an alternative account and this is pursued in the next section.

Closure of Final Salary Schemes: the Role of Shareholder Value?

The argument advanced in this section is that the decline of the final salary scheme is at least consistent with a trend in corporate governance which is commonly embraced in the United Kingdom (and USA) and, at least in the view of some commentators (for different views see O'Sullivan, 2000, Hancke, 2001, Vitols, 2001 and Jurgens and Rupp, 2002) in the major economies of the European Union. This approach has been termed 'shareholder value' (SV) and it is associated with a 'metric' or form of measurement of corporate performance termed 'economic value added' (EVA).

SV refers to the view that the object of corporate activity should be to generate the best financial returns to shareholders. This, of course, is not in any sense novel (see for example, Parkinson, 1994: 81) but in its contemporary manifestation SV reflects concerns that corporate managers are insufficiently committed to and effective in generating such returns. EVA operates as a means of measuring corporate performance within an SV framework. As Froud et al (2000b: 81-7) point out EVA is susceptible of a number of variants but there are certain common features. Broadly EVA works by taking a corporate profit figure in any given year (again such figures can be calculated in a variety of ways) and subtracting from this profit figure an estimate of the cost of capital to the corporation. This latter figure has two aspects: a measure of the capital employed in the business; and a de facto target rate of return on capital. In general EVA calculations work on the assumption of an expected rate of return of 12-15% (ibid.: 95). Thus the annual 'cost of capital' is derived by multiplying capital employed by such a rate of return figure.

EVA can therefore be positive, i.e. profit exceeds the cost of capital figure or negative, vice versa. Equally it is common to apply a rhetorical flourish to such EVA calculations. Thus while positive EVA is seen as an instance where SV has been created; negative EVA is portrayed as 'destroying' SV. The metric is linked to the overall objectives of SV because it is designed to operate as a discipline on corporate management. Thus such measures may be used not only at the corporate level but also at a divisional level. The expectation is that negative EVA should trigger actions by management to obviate the unsatisfactory 'value destroying' situation. In particular this includes various forms of 'restructuring' such as merger and acquisition and divestment of divisions/businesses which are 'underperforming' (Froud et al., 2000a).

Academic research on SV/EVA has made the point that standard EVA targets in terms of 'creation of shareholder value' prove difficult to attain. Thus Froud et al (2000a) point to a *Sunday Times* 'league table' of EVA performance. This covered the largest 200 UK companies. In 1998 only 87 (43.5%) generated positive EVA; the remaining 113 were thus 'destroyers' of shareholder value (ibid.: 91). This significance of this 'poor' performance from an SV/EVA standpoint is that 1998 was a year in which relatively favourable macro economic conditions prevailed, thus corporate profits were at a cyclical peak in that year (ibid.). An indicator of the impact of the relatively favourable conditions in 1998 is that the 1997 figures were even worse with only 59 of the largest 200 companies achieving positive EVA (ibid.).

Central to the difficulty in meeting EVA targets are structural constraints relating to the impact of particular industries on such financial targets. Thus, in their examination of corporate performance in EVA terms, Froud et al (2000a) points to a series of constraints which, they argue, lead to 'negative' EVA. Weak EVA sectors include, for example, hotels, pubs and restaurants, aerospace, defence, electrical equipment and motor industries (ibid.: 781). They point out that in the case of hotels, pubs and restaurants a structural constraint is the necessarily high level of capital tied up in material assets (ibid.) which, given a benchmark rate of return across all sectors, pushs up the cost of capital set against profit in the EVA calculation. In the case of the other three sectors difficulties in product markets (ibid.) depress EVA through the effect on profits.

Froud et al (2000b) also point out that the difficulty of attaining these EVA targets and the high 'failure rate' in this respect has its own effects. In particular it engenders a set of management moves which are driven by the pressures of EVA targets. In this respect restructuring is seen as a key means of shifting from negative to positive EVA. For example, merger and acquisition could be seen allowing eliminating duplication of functions or facilities in the merged companies (Froud et al. 2000a). This is seen as a means of dealing with 'value destruction' by improving profits (through cutting costs) and/or by reducing the capital employed in the business. Divestment can also be seen as having this effect because divisions generating negative EVA due to low profits and/or heavy commitments of capital are sold off thus allowing an improved overall corporate performance. However, in turn, restructuring is not a panacea for improving EVA performance. In part this is indicated by the combination of high rates of merger and acquisition activity in economies like the UK with the 'weak' EVA performance discussed above. It is also shown by the problems involved in restructuring. Thus merger and acquisition frequently (Froud et al 2000a) raises problems of integrating the merged companies with negative effects on operational performance and the structural constraints such as difficult product markets are not transformed by restructuring activities.

Thus the overall picture is of demanding SV/EVA targets which are difficult to attain and the limits on management strategic moves in the context of frequent structural constraints. Such a pattern is at least consistent with the trend to wind up final salary schemes. Two types of link can be made. The first relates to the issue of risk transfer discussed above. Thus a shift to DC provision eliminates any possibility that companies may be called upon to make additional substantial contributions such as those which were made in the mid 70s in order to underpin defined benefits. The second link relates more directly to the implications for employer contribution levels of shifting from DB to DC. As was indicated earlier under DC schemes employer contribution rates tend to be under half the level prevailing in DB schemes. Such employer contributions are part of the overall employment costs of the enterprise and are set against corporate profits. Clearly then the logic of SV is that such a reduction in labour costs increases the profit share of corporate value added and hence the funds available for distribution as dividends. This is not to say that reducing pension contributions will 'solve' the problem of generating the returns of capital used as a benchmark under SV regimes. It is rather that part of the response to such pressures is likely to be such cost and risk transfers and, perhaps this is part of a de facto trend where DC schemes are seen as the 'appropriate' form of occupational pension provision under an SV form of corporate governance. In the final section the aim is to set the decline of the final salary scheme in the context of Labour's overall approach to pensions policy and the political economy underlying that approach.

Embracing Risk? New Labour's Political Economy and Pensions Policy

An interesting feature of the discussion of the debate on the closure of final salary schemes is that while there have been many participants, employers' organisations, corporations, the TUC and individual trade unions this has not included the Labour Government. In one key sense it was difficult for the Government to associate itself with the concerns of the National Association of Pension Funds, the TUC and individual trade unions on the decline of DB schemes and their replacement by DC provision. This is because it is precisely the latter form of scheme which is central to Labour's approach to pensions policy (Department of Social Security, 1998: 5). While occupational pension schemes and personal pensions will continue to be supported, state provision of second tier pensions will become residual (the State Second Pension). The centrepiece of Labour policy is to be the money purchase Stakeholder Pension Scheme (SHP) which 'will help many more middle earners to save for a comfortable retirement' (ibid.: 47). This marginalisation of state second tier provision marks a significant shift with past Labour pensions policy (Waine, 1998: 158-161). However, it is consistent with the political repositioning of the party and the policy of post 1997 Labour governments. An insight into such repositioning is provided by attempts to theorise a 'third way' and in particular the work of Anthony Giddens.

A feature of Giddens work is that, he effectively accepts a number of neo-liberal criticisms of the welfare state. Thus the latter is characterised as 'essentially undemocratic. Its motive force is protection and care but it does not give enough space to personal liberty' (Giddens, 1998: 112-3). For Giddens, acceptance of the deficiencies of the welfare state does not mean abandoning it but social democrats must 'shift the relationship between risk and security involved in the welfare state' (ibid.: 100). Underlying these statements is a view of risk which sees it as requiring an 'active' approach and a 'positive engagement with risk [as] a necessary component of social and economic moblization' (ibid.: 64). Thus while there are some risks which we should wish to minimise others 'such as those involved in investment decisions, are a positive and inevitable part of a successful market economy' (ibid.). Giddens does not discuss pensions policy in the context of such arguments. However, SHP would seem to be consistent with the overall political position of such 'third way' arguments. Thus, under

SHP, individuals decide how much to save in their funded scheme (the minimum is the national insurance rebate, with neither employer or employee being required to contribute beyond that level). They may choose when to purchase their annuity (up to the age of 75), they select which annuity to purchase with their 'pots of gold' (Department of Social Security, 1998: 5). Above all they are involved in 'active exploration of risk environments' (Giddens, 1998: 63) since the accumulated fund is determined by the return on contributions. Despite tighter regulatory control SHPs remain money purchase schemes without defined benefits.

In this respect Labour has embraced this 'positive' engagement with risk. However, notwithstanding this apparent coherence there are discordant aspects of Labour policy which reflect, from a 'third way' standpoint, an excessive concern with 'protection'. Thus the Green Paper on pensions (Department of Social Security, 1998: 2) states that the government pensions policy will ensure 'a secure and decent income for all'. This is to be provided through the Minimum Income Guarantee (MIG) a means tested benefit for which pensioners will qualify on the basis of their income and savings levels. It is targetted at reducing current pensioner poverty by making means tested assistance more generous. This approach necessarily creates a tension at the centre of Labour pensions policy. Given the operation of the MIG those who are only able to accrue a small private pension may lose their ability to qualify for means tested provision. This naturally creates a disincentive to private savings which is at variance with embracing a 'positive' approach to risk. The Pension Credit to be introduced in 2003 will ameliorate some of these contradictions but it retains means testing principles and thus does not fundamentally change the ambivalence of Labour policy (for a discussion of the operation of MIG and the Pension Credit, see Brooks et al, 2002: 36-43). The key issue is the expected continuation of means testing for future pensioners.

Naturally the force of this policy dilemma will depend on the experience of the SHP. The aim of New Labour pensions policy is to alter the current balance of pension income so that, by 2050, 60 per cent will be accounted for through income from private sector savings and the remaining 40 per cent by the state. This approach is seen as allowing the demographic challenge to be met 'whilst delivering a decent income in retirement for everyone and maintaining public expenditure at prudent levels (Department of Social Security, 1998: 32).

Such policies depend in particular on take up of the SHP. However, the take up among the target group is lower than was expected. According to figures from the Association of British Insurers, by March 2002, only 750,000 SHPs had been purchased (Timmins, 2002). There are also problems with the contribution levels to SHPs leading to the view that average monthly contributions to such schemes are '...too little to provide most people with a decent old age income' (ibid.). This has also implications for the planned role of the State Second Pension (which replaced the State Earnings Related Pension Scheme in April 2002) as a residual form of provision. Thus pension providers have encouraged lower income savers either to stay with the state second pension or to rejoin it in the decade once they reach middle age (Cicutti and Timmins. 2002).

This suggests that savers do not have such a 'positive' view of engaging with investment risk as 'third way' theorists would wish. Thus, the low take up of SHP provision does not indicate a desire to embrace DC provision; and, as was argued above, closure of final salary schemes has been driven by employer decisions not the preferences of workers. This poses something of a dilemma for Labour pensions policy. If shareholder value is a key driver of the decline of final salary schemes, traditionally a source of a secure income in old age for at least a significant part of the workforce, then risk transfer is part of the corporate agenda in establishing a 'modern' pensions regime. This means that 'decent' incomes in old age could come through higher private saving supplementing weaker occupationally based provision. However, at least the current experience of SHPs suggests that this is unlikely. Alternatively the state could take an increasingly salient role but this sharpens the tension with the 'third way'. Indeed the logic of the latter might seem to suggest that the very notion of a pensions policy of any kind is inescapably paternalist, a position with which Giddens (2000: 40) has at least flirted. The decline of final salary pensions is thus an interesting part of a broader political phenomenon, the extent to which social democracy is being partially redefined or is effectively being absorbed into a variant of neo-liberalism.

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